MARKET DEPENDS ON PROFIT OUTLOOK

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

ANUARY 30, 1960 85 CENTS

★

NGEROUS AREAS of RIGIDITY
UNDERMINING DOLLAR
and U.S. ECONOMY
By JACK BAME

★

Expert Appraises...
THE BUDGET MESSAGE
By STEWART HENSLEY

★

COMMODITY MARKET SAYS
BUSINESS MAY LEVEL OFF
— Before Mid-Year
By GEORGE GEBHARDT

Special Security Features ...

PART II . . .
A CRITICAL ANALYSIS
of 30 LEADING BLUE CHIPS
— Backbone of Stock Market
By ROBERT B. SHAW

★

NDIDATES for STOCK SPLITS
in the INSURANCE FIELD
By PAUL J. MAYNARD

★

YOU CAN RENT
ANYTHING TODAY
nd the COMPANIES DOING IT
By ARMAND KRAUSS

★

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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CONTENTS

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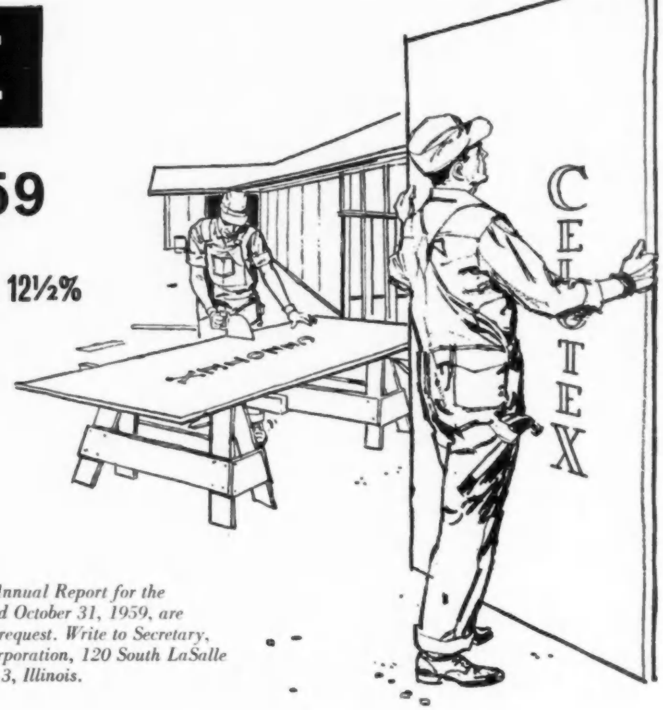
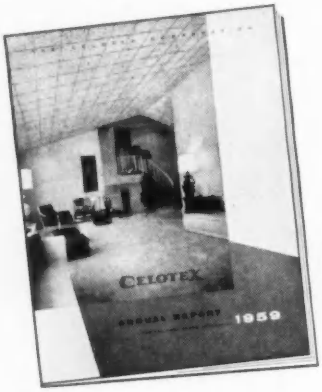
CELOTEX

REG. U.S. PAT. OFF.

Highlights for 1959

Earnings increased 32% - Sales increased 12½%





Copies of our Annual Report for the fiscal year ended October 31, 1959, are available upon request. Write to Secretary, The Celotex Corporation, 120 South LaSalle Street, Chicago 3, Illinois.

Net sales were $76,242,172—second highest in the company's history—and earnings were $4,131,907 in the year ended October 31, 1959, compared with sales of $67,726,783 and earnings of $3,127,512 the preceding year. After preferred dividends, the earnings were equal to $3.76 a share on the 1,028,651 common shares outstanding, compared to $2.79 a share on the same basis in 1958.

Some business dislocation, stemming principally from the steel strike, was felt in the fall of 1959 and has continued in early fiscal 1960. Tightening in the mortgage money market indicates a drop in new home construction. On the other hand, a high rate of non-residential building construction and continued expansion of the repair, remodeling and "do-it-yourself" markets are expected.

We presently anticipate no relaxation of competitive conditions and recognize the necessity of continuing to intensify our efforts to increase our share of the market. The Celotex line of products is continually being improved and enlarged. We are optimistic for the future and expect to maintain the strong position we have long held in the building industry.

Henry W. Collins
PRESIDENT

COMPARATIVE STATEMENT OF INCOME

FOR THE YEARS ENDED OCTOBER 31,

	1959	1958
Net Sales	$76,242,172	$67,726,783
Costs and Expenses:		
Cost of sales and selling and administrative expenses	65,286,360	58,832,728
Depreciation and depletion	2,845,417	2,662,365
Total Costs and Expenses	68,131,777	61,495,093
Income from Operations	8,110,395	6,231,690
Other Income (net)	73,512	(114,178)
Income Before Income Taxes	8,183,907	6,117,512
Provision for Income Taxes	4,052,000	2,990,000
Net Income for the Year	$ 4,131,907	$ 3,127,512

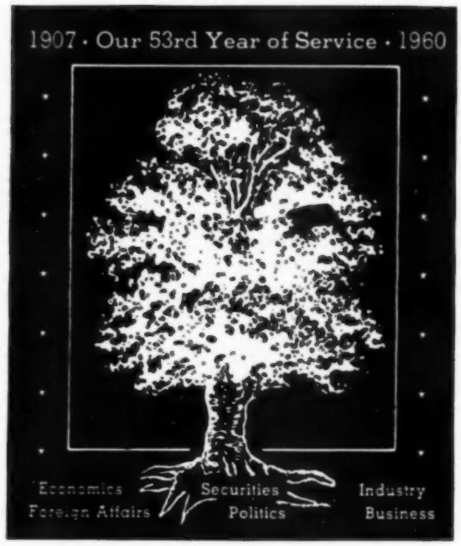
ASSETS

	As of October 31, 1959
Current Assets:	
Cash and U. S. Government securities	$ 8,729,052
Accounts receivable (net)	11,046,840
Inventories	7,965,369
Total Current Assets	27,741,261
Property, Plant and Equipment	79,119,421
Less: Accumulated depreciation and depletion	28,059,557
Net Property, Plant and Equipment	51,059,864
Investments	1,236,643
Prepaid Expenses and Deferred Charges	643,264
Total Assets	$80,681,032

LIABILITIES, CAPITAL STOCK AND SURPLUS

Current Liabilities:	
Accounts payable	$ 4,138,432
Accrued expenses	1,703,760
Taxes (less U. S. Treasury obligations)	811,735
Payments on long-term debt due within one year	950,000
Total Current Liabilities	7,603,927
Long-Term Debt Due After One Year	20,450,000
Deferred Federal Income Taxes	1,598,000
Net Worth:	
Preferred stock	5,137,250
Common stock	1,028,651
Paid-in surplus	10,581,140
Earned surplus	34,282,064
Total Net Worth	51,029,105
Total Liabilities and Net Worth	$80,681,032

THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

1960 OPENS with business and the market going in opposite directions. Since the first of the year, in 12 trading sessions, the averages tumbled some 40 odd points, indicating that sophisticated security buyers view with skepticism the likelihood that profits in the year ahead will climb to levels that would justify still higher prices for stocks already selling at a high multiple of earnings—in an atmosphere that hovers between inflation and deflation. In a setting too, in which foreigners are evaluating the future of the dollar—the reasons wherefore are cogently discussed in our important story in this issue, "Dangerous Areas of Rigidity Undermining Dollar and U.S. Economy," which we suggest as "must" reading for subscribers both as businessmen and as investors.

In fact, the decline in the market since the first of the year is reported to have been due in part to selling by sophisticated foreigners who are always alert to conditions in the money market and world affairs, as well as by U.S. speculators who have been carried on margin by foreign banks that have been calling in their loans as the 40 point tumble progressed.

There is no question but foreigners are closely watching the movement of gold out of this country, and that this has become a market factor of great importance—which, however, is being ignored by investors, who, thinking in terms of the capital gains tax, are holding on to stocks at a time when they should be at least taking partial profits to mark down costs.

It is this attitude on the part of too many investors, together with the institutional buying by investment trusts and pension funds having a continuous influx of new money for use in the market, which has thus far produced an orderly decline. It is our suggestion that this gives the individual investor an opportunity to think the situation through, and adjust his position by eliminating the least desirable holdings, as well as reducing costs on securities he intends to hold by at least taking partial profits.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

MADMAN OF THE CARIBBEAN . . . In just one year, the self-styled savior of the Cuban people has, by his recklessness, torn down the laboriously built up economy, crippled industry large and small vital to the country's well-being, wiped out the savings of the people, and destroyed all forms of personal liberty.

At the same time, he has done everything possible to alienate the United States, the country that gave Cuba her independence, and which has shown the greatest goodwill in developing Cuba's agriculture, building up her industry and making a market for her products.

It is to our credit that we have evidenced the greatest tolerance and forbearance. But how much longer can we turn the other cheek?

In egging us on to take action against him, Castro has undoubtedly counted on the support of the ill will the Communists have been stirring up against the United States throughout the Southern Hemisphere. But the methods he has used have boomeranged against him, and he has gone too far and too fast in his reckless course at home. Today, out of 6,000,000 Cubans, only a small percentage are with him, for the common sense of the rest of the population already clearly sees the handwriting on the wall. Yet Castro continues to make one mistake after another, so blinded by his ego that he does not count the cost of the impulsive and ill-considered steps he is taking, and behaves like a veritable madman.

His rash act in dismissing the Spanish Ambassador for protesting about Castro's unwarranted and false accusations, is bound to further alienate the Latin American people, who look upon Spain as their Mother Country. It was the most autocratic and unbalanced action that he could have taken—and his great lack of courtesy and the hysterical tempo of his words will certainly react in our favor in a show of greater goodwill in the reception of President Eisenhower during his tour of South America.

There is no doubt now that Fidel Castro's ruthless program of expropriation of his country's factories and land has behind it the evil purpose of a redistribution of these assets as he and his scheming and greedy partners see fit.

As far as two decades ago, the Communists began infiltrating Cuba, and the reports were spread to the effect that the Island had been designated as the headquarters for Communist revolutionary activities toward domination of Latin America, with the ultimate aim of hemming in and taking over the United States. But it seems evident that the Commies have overplayed their hand in Cuba, since, instead of creating sympathy for the revolution and Castro, they are causing apprehension and fear of the outcome all over Latin America.

Altogether, as matters now stand, the situation in Cuba is fast moving toward a climax.

OUSTER OF MASSU—ANOTHER STEP IN THE COLD WAR? . . . That matters are not going too well for the French in the important area of Algiers is clearly shown by the deflection of Jacques Massu, the great hero of the European population, who has openly opposed General de Gaulle on his plan for Algerian independence.

Charles de Gaulle has been sitting on a powder keg as far as Algeria is concerned, ever since he came to office as Premier and took the first steps toward conciliating the military leaders there, who violently objected to de Gaulle's policy of self-determination for Algeria. Although it looked for a while as though matters were being smoothed out, it seems now that the fire was merely smoldering, and that a peaceful settlement is not in the offing.

While many people believe that oil is responsible for the ultra-nationalistic attitude of the European leadership there, this may be only partially true, since Algeria has always played an important role as a producer of products for French consumption, and as a market for French goods these many years past, which accounts for the large French population in this North African sector of the French Republic.

It is too bad that this situation should arise at this time, just before de Gaulle's visit to our hemisphere—Khrushchev's visit to France—and the first Summit Meeting in Paris. Whether it is a coincidence or part of a cold war maneuver, it is interesting to note that both the anti-Nazi attack on West Germany, and the eruption in Algeria, follows the refusal of both de Gaulle and Adenauer, to deal "softly" with the Russians. Both were hit in the most vulnerable spot. The Germans were violently attacked at the weakest level, that of Neo-Nazism—and in France it was Algeria, the most divisive issue plaguing de Gaulle.

Unquestionably, there is a great deal of intrigue going on in the struggle for place as we approach the first Summit Meeting. In both cases, it looks like an attempt to force both Adenauer and de Gaulle to make the concessions demanded of them, which they turned down at the previous meeting. In these two instances, it appears the Russians may be able to cash in on the differences between the Western allies without lifting a finger. Naturally, each side is determined to lead from strength, and the injection of these frustrating and time-consuming diversionary tactics are moves in the game.

For our part, we can consider Russia's announcement of her intention to fire a rocket in the Mid-Pacific as a cold war maneuver against the U.S.A. However, whether she wanted to or not, it definitely pointed to her firm allegiance to Red China, about which the world had been kept guessing for a long time. And it appears that we countered this move by signing the mutual assistance treaty with Japan, over which both Red China and the Soviet Union raised such a hue and cry that it brought a quick retort from Premier Kishi of Japan that "such objections were an infringement on the right of free nations to decide for themselves on matters concerning their internal affairs." This statement, in turn, was designed to tell the uncommitted countries of the world that Red China and Russia were the foes of freedom, and reemphasized the significance of Red China's recent aggressions.

Thus the struggle goes on and on, with the sharpest wits winning the points. To keep it at this level will be a victory indeed. END

As I See It!

By John H. Lind

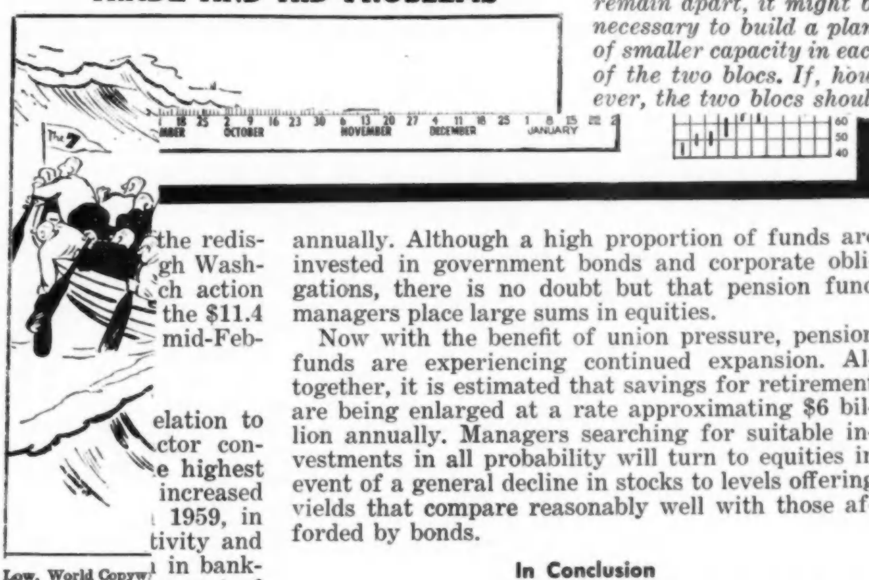
WHAT AMERICAN BUSINESS GOT OUT OF THE ATLANTIC TRADE CONFERENCE

Under-Secretary Dillon's efforts at the Paris meeting can be called a success in so far as he has succeeded in (1) narrowing the great depth of the gap between Europe's two trade blocs, and (2) in avoiding the unpleasant possibility the gap might some day be bridged by exclusive trade liberalizations, not applicable to North America and other "third" trade areas.

His strategy, therefore, was to provide a framework for new talks between the two blocs—but with the direct participation of U. S. and Canadian representatives, to prevent the conclusion of any agreement that might discriminate against dollar-area trade.

As a result, the two blocs are again talking to each other and various measures have been devised, including the appointment of a committee of "four wise men," to keep the talks alive. At the same time, America has made it clear that any "bridge-building" between the Sixes and the Sevens must follow the spirit of GATT, i.e. trade liberalizations must be extended to all other countries on the basis of the most-favored nations clause, and to make sure that this principle will be honored, Mr. Dillon has proposed that the U. S. join a revitalized O.E.E.C. (the all-European trade organization charged with abolishing intra - Europe trade barriers) as a full-scale member. the Under-secretary made it clear in this that he was now talking for a lame-duck g and that therefore no binding commitme made before 1961.

TRADE AND AID PROBLEMS



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The Significance

Market?

But all the provisions pertain merely t cent years al matters. On the far more important le k market *stance,* no progress at all was achieved at ns and the none was really expected. For America ernments. men who have subsidiaries in Western Eu d to such considering the establishment of same, individual be discouraging, since the future fate 3.5 billion trade blocs and their attitude towards dollar goods is of paramount importance in all decisions affecting U. S. foreign investment.

Here are some of the problems to which American business concerns seek answers in connection with their European markets:

If the two trade blocs should merge, a plant in any of the thirteen countries would give the company the advantage of an inside in all of them, as far as tariffs are concerned. In such a case the capacity of the plant would have to be relatively large, since it would supply an area of 250 million people.

On the other hand, if the two trade blocs should remain apart, it might be necessary to build a plant of smaller capacity in each of the two blocs. If, however, the two blocs should

annually. Although a high proportion of funds are invested in government bonds and corporate obligations, there is no doubt but that pension fund managers place large sums in equities.

Now with the benefit of union pressure, pension funds are experiencing continued expansion. Altogether, it is estimated that savings for retirement are being enlarged at a rate approximating $6 billion annually. Managers searching for suitable investments in all probability will turn to equities in event of a general decline in stocks to levels offering yields that compare reasonably well with those afforded by bonds.

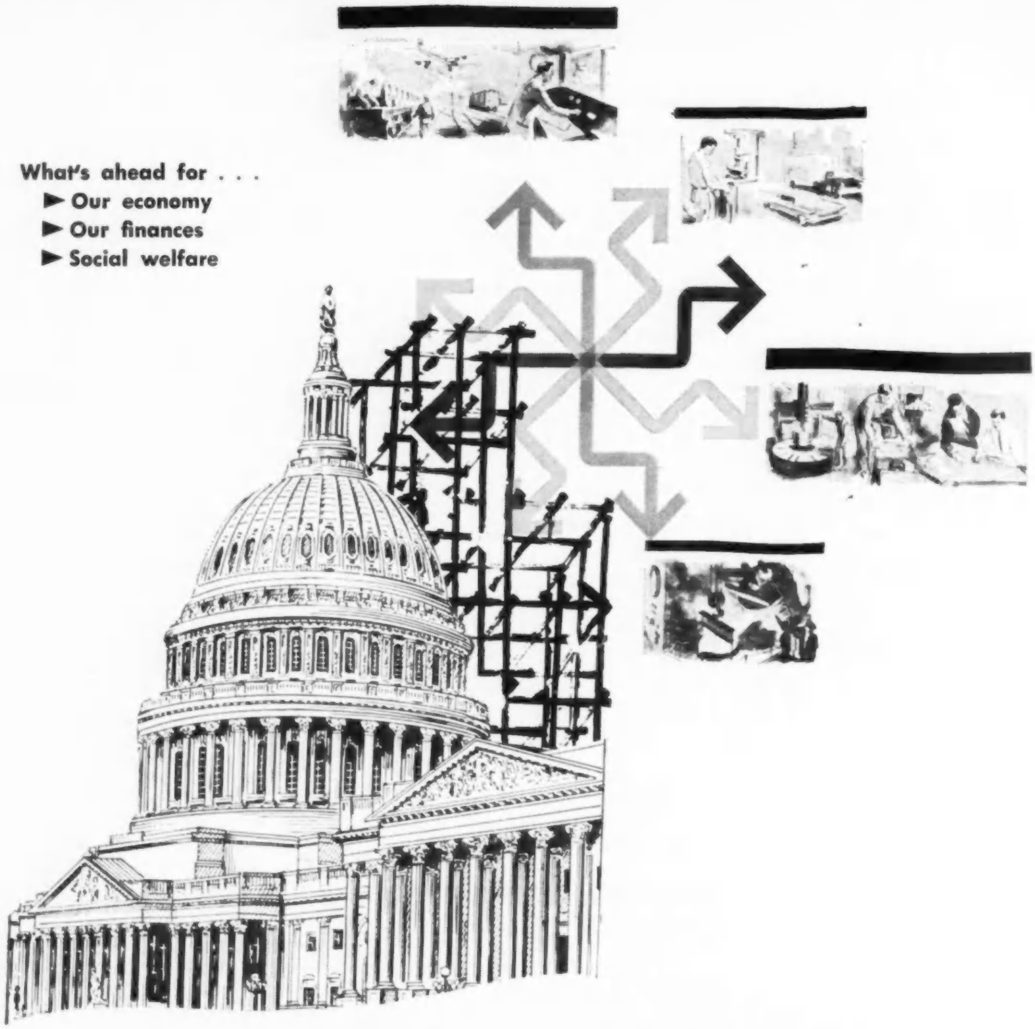
In Conclusion

Although forthcoming year-end earnings reports, reflecting adverse effects of the steel strike in the December quarter, are unlikely to be cheering news, yet the market will be looking ahead to the improved outlook in the March and June quarters. Manufacturers in position to take advantage of plentiful raw materials and strong consumer demand should be able to build up profits in the first half of the year.

If selling continues, the combination of a gradually improving industrial environment and pressure of pension fund accumulations for investment should provide the background for an orderly retreat of the stock market. Indications point to a gradual readjustment to lower levels on which a base may be formed for a Spring rally.—Monday, January 25, 1960.

What's ahead for . . .

- ► **Our economy**
- ► **Our finances**
- ► **Social welfare**



AN EXPERT APPRAISES THE BUDGET MESSAGE

By STEWART HENSLEY

THE Budget President Eisenhower submitted to the Congress on Jan. 18 is at the mercy of three big "Ifs" and the political pressures of an election year.

The President's estimates for Fiscal 1961 promise a budgetary surplus of $4.2 billion, IF:

► The business boom turns out to be as hefty as he hopes;

► Congress holds appropriations to the budget figures or reduces them; and

► The legislators approve the revenue-boosting proposals such as increases in the postal rates and gasoline tax and continuation of transportation and telephone levies due to expire June 30.

Gen. Eisenhower's estimate of a record revenue yield of $84 billion, which would be $5.4 billion higher than the current fiscal year, is predicated on a steadily rising economy. It assumes the attainment during 1960 of a Gross National Product of $510 billion. This 6¼ per cent increase is counted on to stimulate a $4.7 billion boost in tax revenues.

►The President's GNP estimate is generally considered to be conservative, although there are some economic experts who will want more evidence of an upsurge before they accept his figure.

But the really swampy area in the anticipated revenue figure is reached, when one considers the Presidential assumption, that Congress is going to accept his recommendations for approximately $700 million in new revenue and extension of current tax rates affecting an additional $2.7 billion in levies.

Included in the anticipated $700 million in new revenue—and certainly nowhere sure of Congressional approval—are the proposals for a postal rate increase calculated to bring in $554 million and an increased tax on aviation fuels estimated to yield

$72 million. The estimated tax of $2.7 billion depends upon another year's extension of current excise and corporation taxes.

FEDERAL SOCIAL WELFARE—In an election year and with a hostile Congress, the President appears to be operating from a shaky premise at best.

On the other side of the ledger, the President's estimate that expendiutres during Fiscal 1961 can be held down to $79.8 billion appeared somewhat optimistic to many political experts. In the teeth of a hostile Congress in an election-year mood to expand programs rather than reduce them, Eisenhower proposes whittling a number of Federal social welfare activities.

He said: "I believe our people have the determination to hold expenditures in check, to pay their own way without borrowing from their children, to choose wisely among priorities, and to match sound public policy with private initiative."

Politics The Stumbling Block

DEFENSE—But champions of greater defense spending and of more costly welfare programs on the domestic side are strong in the present Congress.

► The biggest single spending item in the budget is for defense—$41 billion. But there is certain to be pressure to increase this—pressure from democratic politicians campaigning on a platform which charges the Republicans with endangering national security by holding military expenditures down.

Chairman Carl Vinson of the House Armed Services Committee gave a preview of what can be expected when he said the President's $41 billion defense budget was "based upon the dollar sign" rather than on military requirements. He called for increased defense spending "even if it requires increased tax revenues."

PUBLIC WORKS—The Budget Message contained few surprises but the President did reverse himself by proposing to begin construction on some 30 new public works projects. Since he had flatly opposed this last year, his revised action led to immediate charges from some Democrats that he was playing election year politics on this issue.

The Presidential Budget was, of course, a political document but in the broad rather than the narrow sense of the word.

It was a hold-the-line Budget, promising a substantial surplus if Congress doesn't rock the boat and business goes on as the Administration hopes. Thus it fits admirably into the Administration's "Peace and Prosperity" theme for the November elections.

Its validity could not survive any real economic shocks or a sudden turn for the worse in the "Cold War." But the Administration obviously believes it will not have to. Some less optimistic political and economic observers are not so sure.

The President's strong belief that the Federal government should withdraw from domestic spending programs wherever possible was evident throughout his budget. He disclosed that he intends to allow the direct housing loan program for veterans to expire as scheduled July 25 and wants to replace a similar college housing program with a less expensive system of federal loan guarantees.

DEPRESSED AREAS—His proposal for $57 million in aid to areas suffering chronic unemployment was very small compared to the program the Democrats want.

LABOR—With respect to labor, the President said he would seek funds to implement the 1959 labor reform bill. *He also will ask for legislation to extend unemployment compensation to cover three million more workers.*

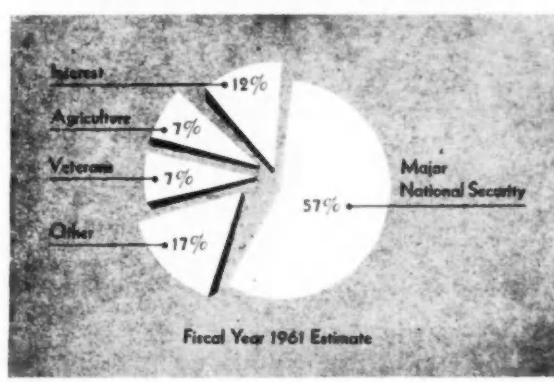
TAXES AND INTEREST RATES—The President firmly rejected in advance any idea of a tax cut this year and said again, as he had in his State of the Union address, that if the Fiscal 1961 surplus actually is achieved, it should be applied to reduce the Federal debt.

The interest on this debt now has risen to 12 per cent of total Federal spending. The President asserted that the interest figure could rise even higher unless the 4¼ per cent interest ceiling on long-term government securities is raised to give the Treasury more flexibility in selling securities.

The Treasury estimates that interest charges on the National Debt during Fiscal 1961 will come to more than $9.5 billion, which is more than it cost to run the entire government before World War II. The interest figure has increased more than 60 per cent since Fiscal 1952. The sharp rise in eight years is credited to two things: The debt increase resulting from the Korean War and the fact that interest rates on government bonds have climbed to the highest point in many years, due to a tight money market.

While the President offered no hope of tax relief

PURPOSES OF BUDGET EXPENDITURES



for business in the way of specific reductions, the Administration did set forth a plan which it claimed would encourage business to modernize and expand production facilities.

The plan has two parts—one advanced by the President in his Budget message and the other put forth by Treasury Secretary Robert Anderson.

► Gen. Eisenhower submitted a proposal whereby Congress would make profits on sale of depreciated property taxable as ordinary income instead of Capital Gains.

► Anderson then issued a statement saying that Congressional compliance would make it possible to allow business more generous income tax deductions

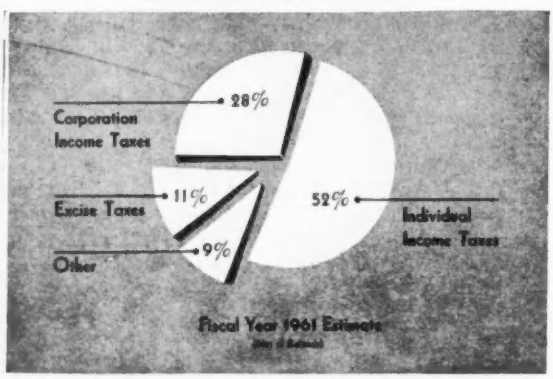
for depreciation of production equipment. The Treasury Secretary said he would like to allow more liberal deductions in areas such as electronics where equipment often becomes obsolete before it is worn out. Standard depreciation allowances are on "useful life," which usually means the equipment must be worn out.

► There are about 100,000 corporations in the 52 per cent tax bracket. Every extra dollar of depreciation allowance would mean, for such firms, a net saving of 52 cents. The Administration claims the result would be to foster investment spending and create new employment.

DEFENSE—*The major spending item in the Budget,* as noted earlier, was the $41 billion for defense—$40,995,000,000, to be exact.

This was just fractionally bigger—$50 million—than the defense budget for 1960 but the President said it would provide "the strong and versatile defense which we require under prevailing World

SOURCES OF BUDGET RECEIPTS



conditions." The Budget laid down plans for expanding the entire arsenal of nuclear missiles, from intercontinental ballistic types to new atomic rockets for individual soldiers. The President said the budget would speed the shift in emphasis to missile warfare without neglecting forces needed for more conventional combat.

Gen. Eisenhower rejected criticism that his defense planning leaves the United States too far behind Russia in the rocket and missile race and, at the same time, fails to provide adequate conventional defense for "limited war."

He plotted a billion-dollar increase in spending on Atlas and Titan Intercontinental Ballistic Missile units, more Polaris-missile submarines, new missile-carrying B-52 jet bombers with more than 9,000 miles range and other modern weapons.

Gen Eisenhower said he was certain his defense budget was well-rounded and adequate to carry out the responsibilities of the United States.

► *Military forces* in Fiscal 1961 will total 2,489,000 men. This will be the first time since the Korean War that the level has fallen below 2½ million. The forces will include 27,000 aircraft, 817 ships, 17 army and marine divisions.

The navy will receive more new ships than in any year since World War II except 1955, many of them missile-launchers.

The breakdown of military spending:

Army—$9,383,000,000, a $34 million increase.
Navy—$11,683,000,000, a $112 million increase.
Air Force—$18,614,000,000, a $209 million decrease.

Next in order of spending magnitude was the figure of $9,585,000,000 estimated as *interest on the Federal Debt.*

FARM PROGRAM—The *third largest figure* in the expenditure column is the $5,623,000,000 budgeted *for Farm programs.* This compares with the $5,113,000,000 spent by the Agriculture Department in Fiscal 1960 and $6,529,000,000 in Fiscal 1959.

The biggest chunk of the Fiscal 1961 appropriation would go, as usual, for stabilization of farm prices and income—$3,950,000,000. *This is up $451 million from Fiscal 1960.*

President's Agricultural Program

The President called for "urgent" legislation to put wheat price supports on "a more realistic basis," saying that "the longer unrealistic price supports are retained, the more difficult it will be to make the adjustments in production needed to permit relaxation to government controls over farm operations."

The six-point legislative program the President outlined for agriculture was virtually the same as that he proposed last year, with no success.

He again asked Congress to:

► Further revise agricultural price support programs and extend, with revisions, the conservation reserve program.

► Revise interest rates for rural electric and telephone loans.

► Require the states to share more of the costs of farm disaster relief.

► Simplify and consolidate loan authority of the Secretary of Agriculture for farm ownership and operation.

► Reduce advance authorization for the Agricultural Conservation Program.

► Strengthen the "Food for Peace" program.

VETERANS' BENEFITS—The next major item of expenditures in the Budget was the proposed outlay of $5,500,000,000 for Veterans' benefits. This was a $300 million increase. The President proposed nothing new in the way of programs and again made known his opposition to a plan, approved by the Senate, for a GI Bill of Rights in peacetime.

BUDGET TOTALS

(Fiscal years. In billions)

	1959 actual	1960 estimate	1961 estimate
Budget receipts	$68.3	$78.6	$84.0
Budget expenditures	80.7	78.4	79.8
Budget deficit	12.4	—	—
Budget surplus (applied to debt retirement)	—	.2	4.2
New obligational authority	81.4	79.7	79.4
Public debt at end of year	284.7	284.5	280.0

RESUME OF THE BUDGET

(Fiscal years. In billions)

	1955 actual	1956 actual	1957 actual	1958 actual	1959 actual	1960 estimate	1961 estimate
New obligational authority	$57.1	$63.2	$70.2	$76.3	$81.4	[1]$79.7	$79.4
Budget receipts	60.4	68.2	71.0	69.1	68.3	78.6	[1]84.0
Budget expenditures	64.6	66.5	69.4	71.9	80.7	[1] 78.4	[1]79.8
Budget surplus (+) or deficit (—)	—4.2	+1.6	+1.6	—2.8	—12.4	+.2	+4.2
Receipts from the public	67.8	77.1	82.1	81.9	81.7	94.8	102.2
Payments to the public	70.5	72.6	80.0	83.4	94.8	95.3	96.3
Excess of receipts (+) or payments (—)	—2.7	+4.5	+2.1	—1.5	—13.1	—.5	+5.9
Public debt at close of year	274.4	272.8	270.5	276.3	284.7	284.5	280.0
Balance of appropriations carried forward at end of year	52.1	46.0	43.9	40.1	38.8	39.7	39.5

[1] Includes amounts for proposed legislation.

NOTE—Detail in this table may not add to the totals shown due to rounding. Unless otherwise noted, all references to years are to fiscal years ending June 30.

FOREIGN AID—The President asked Congress to appropriate almost $4.2 billion in new Foreign Aid money in Fiscal 1961. Of this, $3,450,000,000 would actually be spent during the year. The remainder would be earmarked for future foreign aid obligations.

► Gen. Eisenhower explained that he needs the obligational authority because procurement must be started in Fiscal 1961 to provide necessary deliveries in future years.

► The nearly $4.2 billion asked in new Foreign Aid appropriations—$2 billion of it for military assistance and the rest for economic and technical *aid—is a whopping $950 million more than the appropriations for the current fiscal year.* Of the $950 million increase, $700 million is for military assistance.

► The President said the increase is needed to speed up economic and technical assistance, chiefly through the Development Loan Fund, "and to strengthen Free World forces, in particular forces of the North Atlantic Treaty Organization (NATO) with advanced weapons and equipment."

► He said "the defense of Western Europe in this era of modern weapons is costly and must be accomplished through the combined efforts of all NATO countries." He said many of these countries are now able to buy conventional arms but must look to the United States for new and costly weapons.

► The President said his foreign aid budget also provides military assistance for countries which "border on aggressive regimes or are confronted with strong internal subversive elements." Most of these are in the Near East and Far East.

AID TO EDUCATION—The President stuck to his guns on the idea of how to aid the public schools. He again urged adoption of his Administration's "pay later" bond plan for helping needy school districts put up new buildings. This plan, first offered last year, contrasts with a Democratic proposal for outright Federal grants which would amount to $2 billion over the next two years.

SPACE PROGRAM—As he had indicated in his State of the Union Message, the President told Congress he wants to increase sharply the spending for the National Aeronautics and Space Administration, from this year's $325 million to $600 million.

Congressional Reaction to Budget

The immediate Congressional reaction to the Budget was about what could have been predicted —strictly along party lines.

Senate Majority Leader Lyndon Johnson said the budget, in at least one instance, seemed based on "assumptions" that were "questionable or at best, speculative." He said Gen. Eisenhower's references in the field of space were "misleading, possibly inadvertently."

Chairman Carl Vinson of the House Armed Services Committee, as noted earlier, said the defense budget was totally inadequate. But he did not say in what items he would increase it.

The fiscal watchdog of the Senate, Virginia's Democratic Harry Byrd said that if there is a budgetary surplus as claimed by the President "it will not result from any expenditure reduction." Byrd, Chairman of the Senate Finance Committee, said there is an increase of nearly one billion dollars in domestic-civilian expenditures in the budget, including highways and the National Mortgage Administration.

Clarence Cannon, the Missouri Democrat who heads the House Appropriations Committee, strongly attacked the new Budget on the House Floor, but for reasons different than those offered by other members of his party. He said the President should have imposed heavier cuts in spending.

Cannon said Gen. Eisenhower's past spending forecasts, with one exception, have proven too low. He said he doubted there would be any surplus at the end of Fiscal 1961—and certainly not one of the magnitude envisaged by the President.

Republicans generally rallied to the defense of the Budget, although some of them acknowledged that they, too, had some doubt about the possibility of achieving the projected surplus. But they staunchly defended the specific provisions of the document.

The President and Treasury Secretary Anderson, in the presentation of the budget, made a direct appeal for public support of their concept of "prudent management" of the Nation's fiscal affairs. This is the same strategy Gen. Eisenhower used with considerable effectiveness during last year's annual budget battle.

But last year was not *(Please turn to page 543)*

DANGEROUS AREAS OF RIGIDITY UNDERMINING DOLLAR and U.S. ECONOMY

By JACK BAME

- The real and "pseudo problems" that flexibility could cure in this revolutionary world
- True measure of values vs. gold-dollar fluctuations
- What can be done that will set us on the right path

THE American Dollar is in the International Spotlight. During the past year—and now continuing into 1960—the world monetary, financial and trade spotlight has, in an anything but flattering close-up, come to center on the United States dollar. In contrast to the robust recovery of Western Europe, which has rightfully garnered the orchids, America's international monetary position has—sometimes with reason and often unfairly—been projected in a very negative image. The dollar, in a number of continental centers and more recently in Hong Kong, has been periodically listed at an unenviable discount from other currencies. The decline in U.S. exports—especially when contrasted with the abnormal 1957 Suez peak—has led to increased talk of our being "priced out of world markets"—undoubtedly true in some areas but questionable as a valid generalization. Common Market and "Outer Seven" nations now account for about 39% of world exports and imports, while the U.S. is responsible for only about 16½% of the global total. (See Table 1.) Our balance of payments deficit, totaling about $7.5 billion for 1958 and 1959 combined—nothing new in the post-war period, except in magnitude—has become

a world-wide sore point of discussion. (Table 2.) The outflow of gold from the U.S., about $3.4 billion in the past two years, has intensified recurrent rumors of a move to raise the gold price from $35.00 per ounce to estimates ranging from $60.00 to $100.00 per ounce—as an effective devaluation of the dollar —to "solve" all our woes.

Raising the Gold Price . . . Pseudo-Solution to Pseudo Problem

Before facing the more basic matters, it would be worthwhile to consider the surface "correction" of adjusting the gold price. There are a number of economists who favor dollar devaluation on a theoretical basis and a number of arguments undoubtedly can be found in their favor—and at least an equal number against. Therefore, no clear-cut conclusion exists supporting a change in the gold price. The latter actually represents an evasion of the basic issues, and is most often proposed as a pure propaganda piece espousing the aims of various special interest groups. In order that we may get to them rather directly, the following capsule comments are presented:

1) It is rather ironic that the alteration of the gold value of the dollar had been suggested both as a cure to the now-disappeared "permanent" dollar gap, and again to cure the apparent dollar glut . . . a truly miraculous medicine to cure diametrically opposed ills.

2) The "cure" would really result in serving the interests of:

a) the Union of South Africa, the leading gold producing country of the free world, who would be an obvious winner from an increased gold price.

b) the Soviet Union, holder of perhaps the globe's largest "free-from-mortgage" gold stock at an estimated $7 to $9 billion. The Russians could then buy more much-needed capital and consumer goods from the West, and even more important, gain an invaluable propaganda weapon in the world-wide battle for economic and political prestige.

The "increased need for international liquidity" argument, always questionable and at present rather subdued by the new increase in International Monetary Fund resources, is now seldom advanced as a reason for a gold price change. Actually, a rise in the quotation of the yellow metal would leave the proportional positions of all countries' reserves relatively unchanged, as all nations would most probably fully align to the new price.

Such a drastic move would be, as Sir Oliver Franks —whom I would describe as a practical and extremely broad-minded visionary doubling as chairman of Lloyds Bank, Ltd.—most recently stated, "disastrous for all the neighbors of the U.S. in the free world . . . it would mean risking and probably losing a great deal of that large area of the world won for freedom since the end of World War II." The position of underdeveloped nations, weak in foreign exchange, would not be helped and would very likely become more oriented towards looking to the Soviet Union as their "stable" source of financial power. *To sum up, a rise in the price of gold by Washington would represent a more precious propaganda bulwark for the U.S.S.R. than any step that that country itself could take.*

Facing the Facts

In practically each and every such consideration, the most detailed analyses and proposals for "corrections" too often become involved in basically unimportant side-issues and/or conveniently applicable rationalizations of the positions of special interest blocs.

It is by no means accidental that the negative aspects of the United States' trade, finance and commercial standing have been repeatedly emphasized. This, unfortunately, is an all too evident reflection of the harmful actions of groups representing the most important sectors of the American economy—*which itself, despite all deserved and undeserved criticisms, fortunately still has the rather fantastic and rich resources, manpower and know-how to be the strong leader of the free world.*

The real political-economic problems of the United States are *not* to be found in any of the above difficulties. The latter are from any statistical or realistic viewpoint, marginal—although important in the eyes of the world—as compared with the potentialities and real wealth of our country and people. The actual solutions to our problems, in a parallel sense, are not to be found in technical "gimmicks" or slogan-inspired panaceas of private and official edicts and declarations. Our trouble is not one which can be so remedied.

Rigidity: The Heart of the Matter

The basic wrongs with the United States today are the *ever-increasing rigidities of too many power blocs* and institutions, both in thought and actions.

TABLE 1

The U. S. and European Trade Blocs, 1959

	Population (millions)	GNP (Est.) In Billions of Paper $	% of World Exports 1959 (est.)	% of World Imports 1959 (est.)	Gold Reserves (Est.) In Billions of Paper $
Common Market (Belgium, France, W. Germany, Italy, Luxembourg, Netherlands)	165.9	$154	24.7%	22.1%	$13.1
E.F.T.A. (U.K., Austria, Denmark, Norway, Portugal, Sweden, Switzerland)	88.3	94	14.6%	16.8%	5.6
TOTAL	254.2	$248	39.3%	38.9%	$18.7
U. S.	179.1	$480	17.2%	15.6%	$19.5

These narrow, unimaginative and many times selfishly motivated viewpoints have led to at least a partial sterilization of general American thought and actions, departmentalized and frequently frozen in caged institutional divisions of our economy. In an age of undreamed of scientific breakthroughs and new concepts in the "exact" sciences, the social science of political economy seems to be in a state of growing inflexibility. I would tend to apply what Dr. Neil Jacoby of U.C.L.A. stated on our monetary system, in the December 1958 report of the American Assembly of Columbia University, to our present politico-economic framework in general.... "*The role of the monetary system in the U.S. economy has rightly been likened to that of the heart and circulatory system of the human body. It behooves us, therefore, to avoid hardening of the arteries and to keep the system vital, flexible, and adaptable* ..." With this in mind, let's look at those areas which are impeding the necessary free flow of "blood"—obstructions which there is fortunately still time to ease and eventually remove.

A) The Rigid Farm Bloc

With about $9 billion in farm surpluses and more ($587 million) being spent on annual storage and handling of government-held stocks than on entire projects in our lagging missile program, *this sector is a perennial monument to rigidity—and shows every sign of more and more petrification.* The huge, almost unbelievable snowballing of a program originally intended to help the small farmer—and now perverted to add millions to the incomes of gigantic and already rich farm operations—*must be halted.* From a realistic point of view, politics makes this just about impossible. Even proposals for the most gradual lowering of price supports have been frustrated by political considerations. About $5 billion or more is spent annually on the farm program, an amount roughly equivalent to *total* yearly foreign assistance expenditures and more than our worst (1959) balance of payments deficit year of the past decade. Profits of up to 167% over storing costs are made—at government expense—by grain elevator operators, who are actually urged to expand their capacity by the government itself. Big cotton price-support "loans" of up to $1,442,595 for a single producer are not very easy to defend on any grounds.

Granted, that some form of assistance to the marginal farmer is needed; granted that it is vital for our nation to keep its lifeblood stream of food and grains, etc. in constantly good shape in case of national emergency; and granted, that a sudden removal of all props is impossible from an economic, political and humanistic point of view. But if no gradual shift from outdated parity concepts and impractical give-aways is begun, there will be an eventual general undermining of the national economy. There have been a number of intelligently thought out (but presently ignored) non-partisan plans for revising the farm price support program, presented from various quarters, including one from the C.E.D. and another by economist Theodore Schultz. The latter concerns a forward price system which would help to predetermine price changes and keep farm production in line with demand so as to maximize efficiency. Failure to adopt a more rational system of helping the farmer than the present one, could lead to more radical experiments.

B) Big Labor and Big Management Rigidity

These powerful institutions in our economic framework have constantly grown, both in size and influence, in a pattern of almost cyclical balance of power swings. The pendulum seems to have swung, for the present at least, towards the labor side, although management in certain areas itself has nothing to be proud of in its actions. It is by now evident that our populace does not seem to choose to have productivity gains and technological improvements passed on to the consumer in the form of lower

TABLE 2

Exports, Imports, Gold Stock and G. N. P.

(Billions of Dollars)

	1951	1952	1953	1954	1955	1956	1957	1958	1959 (est.)
Exports	18.9	18.1	17.1	17.9	20.0	23.7	26.7	23.2	23.5
Imports	15.1	15.8	16.6	16.1	17.9	19.8	20.9	21.0	22.5
Gold Stock	22.9	23.2	22.1	21.8	21.8	22.1	22.9	20.6	19.5
Balance of Payments	—.5	—1.2	—2.3	—1.8	—1.5	—1.5	0.4	—3.4	—4.4
G.N.P.	329.0	347.0	365.4	363.1	397.5	419.2	440.3	437.7	480.0

Our Total Foreign Aid Has Varied from About $4.2 Billion to $5.3 Billion per Year

prices but rather in higher wages, higher profits, higher prices and more leisure time. Without making any value judgment, it is quite evident that something is wrong when a particular group (organized labor) can obtain returns out of proportion to their input; when another area (administered price industries) can maintain or expand profit margins by agreeing to yield to labor pressures and pass on disproportionately higher prices to the consumer—who foots the bill. In contrast to this, are industries such as textiles, for instance, where price rises are not so readily passed on to the consumer and, as a result, labor does not demand so much and management does not yield too easily to any pressure. This results, for the most part, in more intelligent labor-management relations and cooperation, some thought to the consumer, and no constant strike threats. However, in many cases, nominally larger pay envelopes and paper profits of corporations result in an overall *real loss* for the nation as a whole—for the very same labor and management participants are themselves consumers. Those in other areas who do not keep up with these out-of-proportion wage increases suffer more drastic losses, even in the face of bigger pay envelopes themselves. On top of this, there is the irretrievable loss of national production and consumption caused by strikes based on these demands.

The "featherbedding" problem, a subject which might very well become the most cause for concern in the face of increased automation, also must be faced and dealt with. *The evasion of this "working rules" question in the recent steel strike settlement does not give any hope of this in the immediate future.* In addition, growing foreign competition—for example in the steel industry where imports were up at least 180% for 1959, while exports dipped by about 38%—makes further inroads in American markets at the expense of domestic producers. This will not be solved by discriminatory barriers against foreign imports but must be faced right here at home. It is utterly ridiculous for a nation with our wealth and resourcefulness to be pushed into such a position.

C) Among Other Rigidities, each of which can be greatly expanded upon, but which will merely be summarized here are: those in the fields of *banking, foreign trade organizations* and *financing* which only recently—having reacted *to* something rather than initiating it—have shown some signs of emerging from their formerly more than adequate, but now lagging, methods. The aggressive "sell" techniques of the Germans, Dutch, British and Japanese have cut into and replaced previously American business abroad. Better payment and delivery terms have been advanced and overseas technical progress—paradoxically due partly to American help and advice—have caught up with their always progressive servicability techniques. Recent proposals and discussions of an export insurance program, longer credit terms, etc. are steps in the right direction. But more throwbacks to the early 19th century days of imaginative resourcefulness on the part of our international traders and bankers such as their bold entrance into the early Far East trade, are necessary. More Jacksons, Lees and Elias Derbys are called for. Africa, especially, and Asia present new challenges which should be planned for now. Official reports that many U.S. companies do not even reply to foreign inquiries related to buying American goods are not very encouraging.

Governmental rigidities have been next, in administrative procedures and policies on the domestic side—too often dictated by purely unabashed political dealings and deliveries of votes; such as problems involving the silver subsidy, protectionist blocs, veterans affairs, etc. *Lack of initiative* in foreign economic—not to mention political—decisions by government, but rather reacting to Soviet moves, has been another form of rigidity. Fortunately, this too shows signs of emerging—in some areas—into a new pattern of more forceful actions, as evidenced by our constructive participation in new international economic formative plans.

TABLE 3

Basic Steel Data

	% Change 1953-1958	% Change 1947-1958
Average Hourly Earnings, Basic Steel	up 33.8%	up 100.8%
Average Hourly Earnings, All Manufacturing	up 20.3%	up 72.2%
Wholesale Prices, All Commodities	up 8.3%	up 23.7%
Wholesale Prices, Steel Mill Products	up 34.6%	up 108.6%
Consumer Price Index	up 7.9%	up 29.2%

However, in such matters as the 4¼% Congressional straightjacket put on long term Treasury bonds, which leads to more inflationary short term financing, rigor mortis seems rather firmly set in.

Next is the *rigidly* upward trend of the *price of services,* which show no improvement in productivity but which have risen 21% more from 1947 through 1958 than has the consumer price index. And the outlook is for an increased portion of consumption expenditures to be utilized in this area.

Furthermore, there is the *rigid apathy* of the general citizenry to most of the economic problems of the day. This, unfortunately, eventually crystallizes in an urgent demand for action—of any sort—when it is too late for such moves to do any constructive good. The habit of the American people to meet—and thus far, very fortunately, overcome—really crucial problems only after they have been unnecessarily allowed to come to a boiling point, may one day prove fatal. Rather rich and once powerful European economies have experienced disastrous collapses due to this very fact. Let us hope it does not happen here.

Another *rigidity* beyond our control must be mentioned: that *imposed* by the always present Soviet military and economic threat—which, to a large degree, unavoidably determines much of our annual budget expenditures. This is a reality which itself makes many otherwise desirable expenditure cuts impossible, for ultimate survival reasons. Concomitant with this problem is the vast *underdeveloped sector* of the globe, *for whose favor, whether we like it or not, we are vying in competition with the Russians. Thus, we cannot appreciably cut foreign aid expenditures—for* *(Please turn to page 542)*

COMMODITY MARKET SAYS: BUSINESS MAY LEVEL OFF

—*BEFORE MID-YEAR*

By GEORGE GEBHARDT

- **Where commodity markets fail to respond to forecast of booming business**
- **Inflationary-deflationary aspects of BLS index and Reuters U. K. index**
- **Breakdown of cost of living index . . . with forecast for 1960 of wholesale —retail prices — consumer commodities — and services**

INFLATIONARY sentiment, on the upswing during most of the Fall of 1959, has taken something of a beating recently as a result of the failure of the steel companies to announce a general price rise following the wage increase agreement.

Since the steel companies cannot absorb the new higher labor costs, steel prices eventually will be marked up. But, it must be admitted, gradual and selective price increases lack the drama and punch associated with overnight announcements of stiff markups.

Steel does not set the pace for all commodities, of course. It will be remembered, however, that there had been much talk of the danger of an "inflationary" price rise in steel all last Summer and Fall, and the public generally had become quite convinced that acceptance by the industry of anything like the union's wage demands was likely to touch off an inflationary price spiral.

Added Uncertainties

The various commodity markets, more or less set

to respond to the much forecast bulge in general business activity, have been in a state of suspense since the first of this year.

For one thing, the customary January upturn in demand for materials from industrial consumers did not develop to anything like the usual extent.

Purchasing agents may have been impressed by the sharp and perplexing declines in securities prices, or by reports that new cars were not selling as well as had been expected. Whatever may be the reason, demand has lacked the aggressiveness that might be expected to accompany a rise in business activity to new all-time highs.

Fingers Crossed

There have been times when the commodity markets were smarter than people in figuring out the course of business. The markets have been acting recently as if they had their fingers crossed on the general expectation of booming business activity at least through the first half of this year and possibly well into 1961.

The markets may be saying that the upturn in business activity is only a flash in the pan, and that "leveling off" may develop before the middle of this year.

1960 still is very young. Very few football games are "lost" in the early minutes of play, even though the signals and plays may be badly mixed up. The business situation, uncertain as it may appear to be at present, may right itself and turn on the boom performance that has been so widely and generally forecast.

Inflationary Impetuses

The indications originally were that, as a result of the steel wage settlement and the sharp rise in business activity early in 1960, prices of various commodities would rise sharply and provide fuel for inflationary sentiment.

There appears to be little doubt that consumption of commodities or materials during the next few months, at least, will be at all-time record highs. Steel mills will be operating at close to 100 percent of capacity to meet current needs of steel-consuming industries, and to fill the 20 million ton hole created by the long 1959 strike.

The automobile industry is scheduled to operate during the first quarter at an annual rate of close to 9 million cars. This is forcing the allied industries to step up production to very high levels.

This is the sort of atmosphere that normally breeds a high degree of business optimism and encourages non-allied lines to step up operations as well.

It is the sort of atmosphere in which inflationary sentiment flourishes, normally.

Fires Rekindled

It well could be that, by the time Spring makes its early bows, inflationary sentiment will be on the upswing again.

In all probability, there will have been some indication by then that the steel companies will be unable to hold the price line, and public attention by that time, may no longer be thinking of the uncertain prospect of a Federal budgetary surplus in the somewhat dim future, but instead be again concentrating on the evils of the wage-price spiral.

With business recovery gaining strong momentum, the current atmosphere of caution is unlikely to endure for long. At present, it must be remembered, we still are feeling the adverse impact of the steel strike, particularly in the various statistical reports.

But with business activity going strong, with industrial production making new highs, with employment and consumer income rising, it will be very easy a few months hence to forget the role of the steel strike in pushing a considerable amount of business forward from 1959 into 1960.

It is only human, as we know, to veer from one extreme to the other. Once optimism begins to expand, it knows no bounds.

Short Life Likely

In all probability, price strength and the revival of inflationary sentiment might prove to be of a somewhat transitory nature however.

For one thing, there is virtually no possibility that the steel industry and the automobile industry will operate during the second half of this year at anything like the high rates scheduled for the first half.

Steel mill operations, close to 100 percent of capacity at present, may drop to no more than 70 percent by early Fall.

The most optimistic estimates in the automobile industry are for production and sales of about 6.8 million new cars this year. If factories produce at an annual rate of approximately 9 million during the next few months, they may have to drop down to a rate of around 5 million or even less later this year.

Although declines in other industries are unlikely to be so great as in these two key industries, and even though some industries may be scarcely affected by cutbacks in steel and auto production, it is unlikely that any rise in inflationary sentiment could survive a moderate setback in business activity during the second half of this year.

It is quite possible that both industrial activity and the average level of prices of primary commodities or materials may end the year no higher than they began, notwithstanding the prospect for considerable interim strength.

Developments in 1959

The general commodity price level—as represented by the Bureau of Labor Statistics wholesale price index, based on about 2,000 commodities—held on a very even keel throughout 1959.

This apparent stability, however, was the result of opposing forces. Prices of farm products and foods declined, offsetting gradual strengthening in prices of other commodities. Primarily, the declines in prices of farm products and foods resulted from increased marketings of livestock and larger meat supplies.

For 1959 as a whole, the BLS wholesale price index was at a new record high, slightly exceeding the 1958 average.

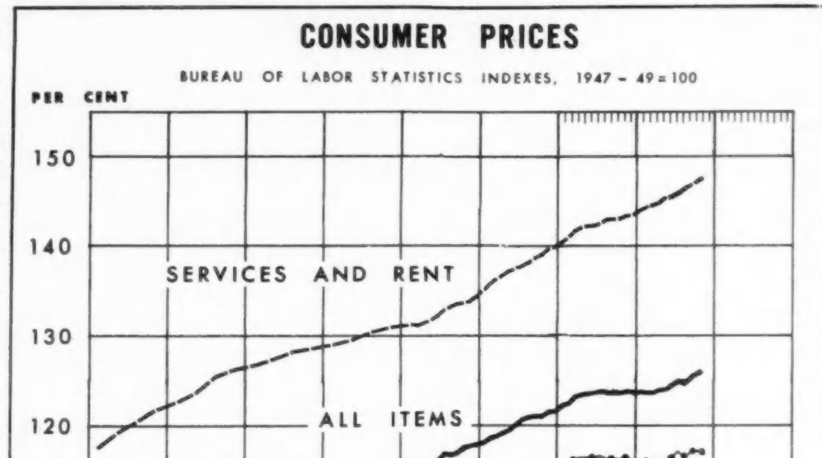
Divergence Between Our BLS Index And Reuters Index

Prices of primary commodities or materials, as a whole, tended to strengthen until mid-Fall, and then

lost ground. The BLS index of 22 commodities was lower at the end of 1959 than at the beginning, although the industrial materials component was higher.

It is interesting to note that Reuters United Kingdom index, based on a small number of commodities or materials and somewhat similar in its composition to the BLS 22 commodity index, recorded its high for 1959 on the last day of the year, standing at the highest level since late 1957.

Reuters index is considered by many as a reliable measure of the world price trend of primary commodities, and the pronounced strength in this index late last year well may be significant.



Cost of Living Higher—Because . . .

The BLS Consumer Price Index, often termed the "cost-of-living index," rose almost steadily during 1959 to a new all-time high. One might almost add "of course."

► The two basic components of the Consumer Price Index are (1) consumer commodities and (2) consumer "services."

► Last year, while the wholesale commodity price index held very steady and, in fact, showed a very slight downdrift from the beginning to the end of the year, the retail commodity price index edged upward a little.

► Rising costs of distribution undoubtedly contributed in considerable measure to the divergent trends of the two indices.

► However, the upward trend in the retail index was slower in 1959 than in 1957 and in 1958, primarily as a result of the downtrend in meat prices.

► *Present indications are that prices of farm products and foods will continue to move slowly downward again this year, as a result of large supplies of farm products and, more particularly, as a result of larger marketings of beef cattle.*

Cattle Numbers High

Cattle growers have been increasing their herds in recent years, as a result of favorable feeding ratios, and the number of cattle in the United States now is at an all-time record high.

Marketings and slaughter picked up in the second half of 1959, *and this trend is expected to continue for several years.* While some reduction is scheduled in hog numbers, this probably will be more than offset—from the standpoint of poundage—by increased cattle and calf slaughter.

The prospects, accordingly, are that livestock and meat prices will continue to decline during 1960, at least, although the declines are likely to be moderate.

Even so, the lower prices indicated for livestock and meats—in addition to the prospect of lower prices for the major field crops—will go a long way towards offsetting such increases as may occur this year in prices of commodities other than farm products and foods.

Unless weather developments for crops are unfavorable, the probabilities are that the net change in the wholesale price index from the beginning to the end of 1960 will be very small, as was the net change in 1959.

Last year, the downtrend in prices of farm products and foods did not get under way until after the middle of the year, whereas the *trend is likely to be rather steadily downward throughout this year and of greater magnitude than last year.* On the other hand, the *prospects are that prices of commodities other than farm products and foods will show more strength this year than last.*

Consumer Commodities Higher

Assuming continuance of a high degree of overall stability in the wholesale commodity price level, we can anticipate that the retail commodity price index will continue to move higher. The rise is not likely to be large, possibly betwen one and two percent.

Such an increase would elevate the retail commodity price index to something like 118 to 119 percent of its 1947-49 base. The most recent index is 117.2, comparing with 116.3 at the end of 1958 and 114.7 at the end of 1957.

With distribution costs rising steadily, it is hardly likely that the retail commodity price index would show any decline this year even if, contrary to expectations, the wholesale index were to register a small net decline from the beginning to the end of the year.

Retail prices tend to respond rather promptly and in full measure to advances at the wholesale level, but are sluggish in their response to wholesale price declines.

Service Costs Will Rise

Regardless of the trend of commodity prices, *it is a virtual certainty that the cost of consumer "services" will continue to move upward.*

In actuality, this is one of the most inflationary areas of our economy, although it seems to have been almost entirely overlooked. While tight money and rigid control of consumer credit have had some effect at times during the postwar period in holding both wholesale and retail commodity prices in check, neither of these has had any effect on the cost of consumer services.

The most recent BLS data place the Consumer Price Index at 125.6 percent of its 1947-49 base. The commodities component was 117.2 and the services component 147.6!

The rise in the cost of commodities in recent years has been comparatively small in comparison with the sharp rise in the cost of services.

Our economy is tending to become increasingly a "service economy" as compared with a commodity economy, yet scant attention has been paid to the sharp increases in costs of services and the increasingly larger share of consumer income that these costs absorb.

► This subject is particularly pertinent in view of the fact that there are so many so-called escalator clauses in wage agreements, whereby wage scales rise (but seldom fall) as a result of changes in the Consumer Price Index.

► The much sharper uptrend in service costs than in commodity costs, is almost a guarantee that the Consumer Price Index (and many wage rates) will continue to rise indefinitely, unless some means is found to check the rise in service costs.

Services Are Taking More Of Our Dollar Each Day

Let it not be imagined for a moment that services are largely items that can be dispensed with, if necessary. As a matter of fact, the records show that, during periods of recession and increased unemployment, the percentage of consumer income spent for services increases substantially.

During such periods, total consumer income declines while the portion of income that must be spent on indispensable services naturally rises.

► Rents and the various public utilities, including buses and railways, account for a large part of total service costs. Doctors, dentists, hospitals, and funeral expenses add up, too. The total cost of automobile upkeep is a really big item. Washing and cleaning, haircuts and hairdos, and the upkeep of our innumerable household appliances, including radio and television, individually add up to a considerable amount.

Consumer Expenditures

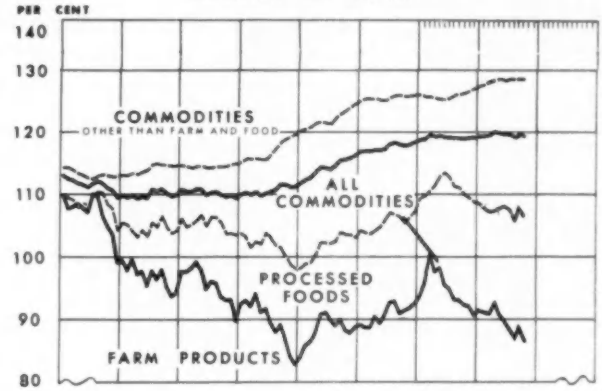
As Percentage of Disposable Income

Year	Goods	Services
1947	67.0	30.2
1948	64.1	30.1
1949	63.9	31.6
1950	62.6	31.2
1951	61.4	30.8
1952	60.4	31.7
1953	59.8	32.4
1954	59.0	33.6
1955	59.9	33.7
1956	58.0	34.1
1957	57.8	34.7
1958	56.7	35.8
1959*	57.1	35.9

* Annual rate based on first three quarters.

WHOLESALE PRICES

BLS Indexes—1947-1949-100



► So, too, do admission costs for the movies, theater, ball games, and so on.

► College and school tuition fees, which have been rising almost steadily and very rapidly in recent years, are other important consumer service items.

► There are numerous other services, but these are the most important.

This enumeration and the sharp rise in aggregate service costs help to explain where the money "just disappears with nothing to show for it."

Taking Bigger And Bigger Bites

Almost every year, the total costs of services take a bigger percentage of total disposable income (consumer income after taxes).

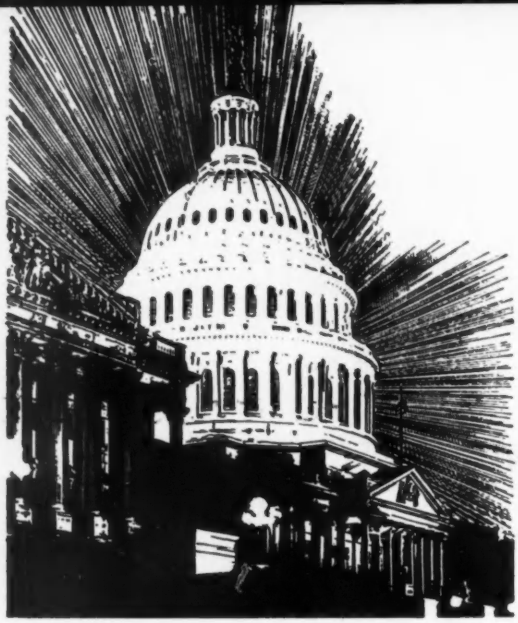
► *Last year, consumer services absorbed 36 percent of disposable income, as compared with 30.2 percent in 1947. The percentage this year may rise to around 37 percent.*

During the past 12 years, the percentage of disposable income spent for services has increased one half of one percent yearly, on an average. *During the same period, the average "unit" cost of services has risen 4 per cent each year.*

► *During the first three quarters of 1959, consumer expenditures for services were at an annual rate of $119.5 billion as compared with $51.4 billion 12 years earlier, in 1947. This was an increase in dollar spending of 132 percent.*

However, when allowance is made for price increases in the cost of services, it appears that consumers received only 51 percent more for their money in 1959 than in 1947. Considering the increase in population of 22 percent in the interim, this does not show a very large rise in the use of services. Or, at least, nowhere near so large as the rise in dollar expenditures suggests.

If the unit costs of services continue to rise at the same rapid rate as in recent years, and if the percentage of disposable income spent on services also rises at the same rate as in recent years, there may be serious trouble in the years to come for the commodity-producing areas of our economy. END



Inside Washington

By "VERITAS"

INTELLIGENCE, as rendered by Central Intelligence Agency, hasn't been too intelligent; in fact, woefully deficient, according to Congressional and other top sources—some within the Administration. Pointed up is the fact that we have been caught totally unaware in a number of situations about which an efficient, super-secret organization would have had proper advance information. Citations include total failure to anticipate the anti-Nixon Demonstrations in Latin America last year; the "surprise" of the recent Panamanian disturbances; failure to keep up with Cuba's bewhiskered Castro, and total lack of information on Russia's missile-space program. CIA, whose operations are so super-secret that its operations are not itemized in the annual Budget, has thus far—with Administration support—succesfully resisted Capitol Hill efforts toward a probe, but it now looks as though CIA Chieftain Allan Dulles will have to face the Solons—in closed sessions, of course—for an accounting of his stewardship. Openly charged, even now, is that enterprising newsmen and others have had better advance information on Cuban troubles than that reported by CIA. Another charge is that CIA is not actively working at undercover activities abroad; is nothing more than a press clipping bureau. Congressional efforts toward a "look-see" will be resisted by the White House, and the shortness of time—before Party conventions—may be the deciding factor against the inquiry.

WASHINGTON SEES:

Brazilian-U. S. S. R. trade accord, involving immediate barter of coffee for oil, is regarded as a very definite Russian victory in its drive to communize the Latin-American countries. If not to communize them, at least to give the Reds an effective "foothold" in this Hemisphere.

State Department is especially unhappy that the agreement was announced prior to the Eisenhower visit to Brazil and other South American Republics. The Department feels the new agreement will make it more difficult for the President to successfully negotiate with our Latin neighbors to the South. Privately, they say Eisenhower will have to do something concrete to overcome the hard realities of oil for coffee, Brazil's greatest staple.

In addition to the oil-for-coffee pact, Russia will supply wheat (while we carry a glut in costly storage) and, most important of all, industrial equipment and machinery. Involved is only about $25 million in machinery, but with the equipment and machinery will be Russian "technicians and experts," all of them trained Red propagandists, who will do their utmost to upset our influence in Brazil, as well as in other Latin countries.

Summarizing, the President's South American good will tour will demand the utmost of his diplomatic abilities, to produce the tumultous welcomes accorded him on his 11-nation tour of Europe and Asia.

STEEL CONTRACT, which provides for "agency representation" of employees within States having Right-to-Work laws is certain to land in the Courts. As now written, the contract provides that employees in the RTW States, must pay monthly fees to the union to act as an "agent." Supreme Court has repeatedly upheld right of States to bar compulsory union membership (Sec. 14 (b) of Taft-Hartley Act). RTW proponents are now readying a test case—probably to originate in Alabama, which has a Right-to-Work law, and site of U. S. Steel's subsidiary, Tennessee Coal, Iron, and Copper Co.; or, it could arise in Roanoke, Va., site of another USS subsidiary. The procedure will be time-consuming, but it is certain to come up within the coming weeks.

RUSSIAN unilateral reduction of land forces (to be armed with "fantastic" weapons) is brushed off here as a propaganda move to give Khruschchev a better bargaining position when he goes to May Summit Conference or when he has his private Moscow talks with President Eisenhower. Both Administration and Congress are more than skeptical of anything out of Moscow—will wait and see before changing our defense course.

As We Go To Press

Foreign industry may be invited to come to this country. Under study by the Departments of State and Commerce and a large private organization is the proposal that non-competitive foreign industries be invited to come to the United States. They would be offered, at low cost or nominal rental, sites in our presently economically blighted areas – anthracite coal and New England's abandoned textile centers – to develop and expand industries not now indigenous to this country. The proposed program has one big question mark: Can the foreign industrialists come here and successfully operate under U. S. union wage scales?

John L. Lewis' Jan. 14 retirement from presidency of United Mine Workers after 40 years as chieftain of the often turbulent union, is regarded in Washington as more "ceremonial" than factual. Experts in the labor movement and within the Department of Labor – as well as on Capitol Hill – declare Lewis will never really retire until "The Old Man With the Scythe" writes "finis." He will continue the power behind the throne in UMW affairs, as well as an influence in all labor-management disputes of wide scope. Further (previously predicted here), Lewis will have an active national role, fully supported by the White House, in any future efforts of the government to stabilize labor-management relations in basic industries; perhaps as a White House appointee to any government commission set up for that purpose.

Elsewhere on the labor front, the 56 Congressmen slated for defeat this Fall by Teamster boss James R. (Jimmy) Hoffa, have accepted his challenge. They have banded together in an "association" to counter-act the Hoffa "influence." It happens, however, that most of them regard the Hoffa enmity as a "blessing" rather than as a political "kiss of death." Meanwhile, AFL-CIO big-wigs are boiling mad at the Hoffa move – may actively campaign against him in a few Congressional districts.

Bituminous Coal Industry now confidently expects Congressional-White House help before the fiscal year ends June 30. Last year President Eisenhower vetoed a measure to create a Federal Coal Research Commission – "on bad advice," according to the industry and certain coal state Senators. The Commission would not recommend subsidies for the industry, still largest fueler to the electric utilities, but would seek ways to expand the uses of coal as a fuel, and as a base for a larger chemical and drug industry. The Commission would also delve into methods for further automation of coal mining. Bituminous coal reserves are good for hundreds of years, while known gas and oil reserves are more limited altho they are continuously being increased by exploration and discovery.

Tax status of farm co-operatives is to have thorough probe by House Ways and Means Committee. Now largely tax exempt as to earnings and member dividends, the co-ops will have a February opportunity to defend their present tax-exempt status. Meanwhile, Treasury regards many of them, especially the larger ones, as profit-making business enterprises within a fair definition of that term. Various past Treasury and Committee estimates indicate that no less than $500 million of properly taxable co-op revenue is escaping Treasury. There will be no legislation during the present Session of Congress, but data gathered at hearings to begin Feb. 1 will be the basis for action by the next Congress.

Foreign aid, regardless of President's budget request, is in for drastic cuts. Flight of gold from the United States – now annually about 14 percent of our gold reserve – will be one factor, Congress demanding that aid money be spent here, even though U.S. labor costs reduce ultimate aid reaching foreign nations. Economic and technical aid will experience the greatest reductions – military aid may be stepped up. There is growing Congressional belief that we have "overdone" on technical and economic assistance. Foreign industries

have used our technical know-how and our dollars to build, on a low-cost labor market, industries which now pose a serious threat to our own industrial economy – textiles, cameras, high speed machinery, appliances, radio, etc. It all may spill over into tariffs and a complete revision of our reciprocal trade program.

Partisan charges that Eisenhower has sacrificed national security on the altar of the balanced budget may be successfully refuted in a review of the Budget from 1956 through fiscal 1960. In the 5-year period the President asked a total of $211,760,000,000 for major national security; his Congressional opponents provided $5,390,000,000 less, or $206,370,000,000. They, the partisan opponents, may try to partially lessen the deficit with doubled funds for missile-space expansion, but the record stands as written. Further, a mere flood of dollars can't wipe out the lag, can only shorten it, provided we have the scientific man-power to do the job.

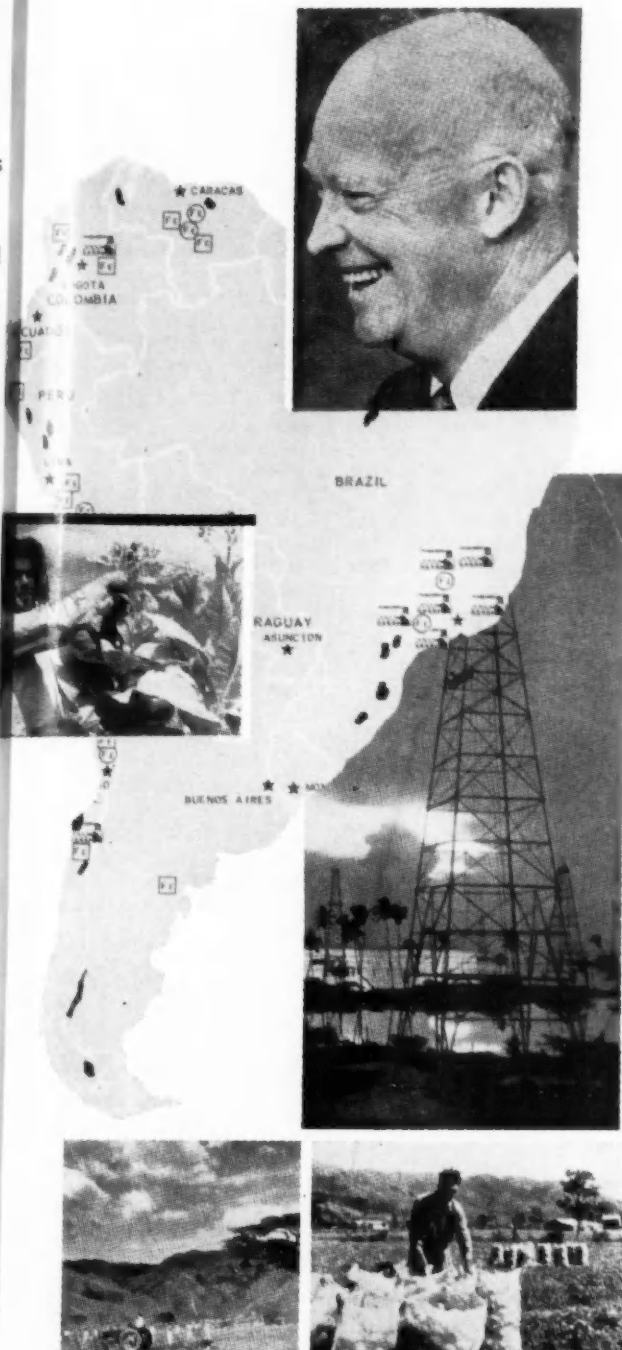
Congress will adjourn or recess prior to the National Conventions. This became clear when Senate Majority Leader Lyndon Johnson (D., Texas) successfully resisted "liberal" attempts to curb his power. The Texan, an astute parliamentarian and a past master in Senate politics, has the "situation well in hand." He will not absolutely dictate the Senate's course during the coming months, but he will "manipulate" it to suit his own (and somewhat conservative) opinions. He has only one serious hurdle, the upcoming battle on civil rights, but good Washington opinion is that he will dispose of the issue without a filibuster. He may have to tolerate two weeks of debate before the Upper Chamber passes a measure palatable to the South, and having tacit blessing of conservative Northerners.

Navy-Air Force space feud to break into open any moment now. It will be aired in coming weeks by Senate Space Committee in a probe of the struggle between the two services, as well as our whole missile-space program. Air Force "brass" will charge that Navy has a program designed to give it a top space role within the next decade; that Navy is trying (at the expense of the Air Force and National Aeronautics and Space Administration) to put its own program to the fore. Navy is sure that it has the best space-missile programs, but Air Force differs with the view. It adds up to the necessity for consolidation of all missile-space research and development under a single responsible agency, preferably civilian directed. The President has indicated his preference for the one-agency course, while responsible Members of the House and Senate Armed Forces Committee seem to agree.

Lifting of the interest rate ceiling on long-term government bonds has somewhat better prospects in this Session of Congress, even though this be an election year in which demagogues could make a campaign issue of an increased rate. The proposal now has the unqualified support of Sen. Harry F. Byrd, (D., Va.), Chairman of the powerful Finance Committee, which has scheduled early hearings on the subject. Recommendations of the Byrd group will have to get approval of House Ways & Means Committee before enactment, but Chairman Wilbur D. Mills (D., Ark.) is well aware of the fact that present 4¼ percent ceiling forces Treasury to deal in the short-term market where no ceiling applies – and records show this to be costly.

Farm program profiteering is slated for headlines that may be on the sensational side; "even scandalous," according to well-placed Washington sources who positively declare that top-ranking Administration figures – possibly one Cabinet officer and one civilian with close White House ties – have garnered lush profits from both the soil bank and grain storage programs. A Congressional inquiry, partisan to be sure, is in the making, but a few Members of the majority Party will be hard-put to explain some of their own manipulations.

Railroad unions heartened by steel settlement. They feel that deferral of action on steel's local work rules strengthens their position in resistance to feather-bedding charges. Coupled with this position are optimistic forecasts by the railroads and the Department of Commerce that 1960 will be a year of large "volume" carloadings and traffic. The unions, however, ignore the fact that forecasts refer only to volume – not profits or costs of operation.



WHAT THE PRESIDENT WILL FIND IN SOUTH AMERICA

By CYRIL VICTOR

PRESIDENT EISENHOWER'S visit to Latin America next month should demonstrate effectively to our southern neighbors, that the United States is deeply interested in their continent. But if the enthusiasm this trip generates is not to turn sour with the occurrence of new hemisphere irritations, it will have to be based on something more solid than mutual good feeling. While general friendship may seem an attractive commodity in the sunshine, it may take more substantial inducement to bring the sharing of protectionist umbrellas in the rain of an economic downpour.

What then is the basis for United States interest in Latin America? Fundamentally, it is our unwillingness to accept the danger of a hostile and menacing outpost in our front yard. If this is to be avoided, there will have to be stable, friendly governments in Latin America affording their people the kind of hope of a better life that will make them eager to share in and help to build, a strong economic and political foundation for the Free World. A stable government cannot long rest on a base of rampant inflation, and hope for a better life cannot long be nurtured without economic growth. The promotion of these goals will require not only a contribution of our resources, but the intelligent understanding necessary if we are to prevent these resources from being wasted through a misdirected excess of friendly accommodation.

In Brazil, Argentina, Uruguay and Chile the Presidential party will find many important topics for discussion. Some of the problems of the smaller tropical countries will not be encountered, for the President's health has evidently restricted the trip to the lower altitude capitals in the more temperate climate, and these countries are generally at a more advanced stage of industrialization. What the President will meet with in these countries, however, will be questions which United States policymakers will find of growing importance for the years ahead.

Brazil

Touching down for the first time on the South American continent, the President's party will find

itself in Brazil, greatest of the Latin American countries in area, and in the magnitude of its current problems. Its sixty-five million people, though limited in their effective purchasing power, make Brazil one of the most attractive markets in Latin America, for they have sparked a domestically oriented industrial boom that surpasses any of the less developed countries.

However, this consumer-oriented industrial development has been accompanied by a massive "targets" program of basic public investments, for which the government has been unable to find non-inflationary financing. Added to the chronic deficits have been the large expenditures entailed in building the new capital of Brasilia in the wilderness of the country's geographic center. The cost of the effort to complete the capital before President Kubitschek retires from office has been enormous, and the government resorted to printing-press borrowing from the central bank, with disastrous effects on the value of the cruzeiro, so that the cost of living rise for 1959 reached roughly 45 per cent.

The weakest link in Brazil's economic structure is unfortunately also its most important product—coffee. Virtually the whole of the development program has been based on the ability of coffee exports to pay for necessary imports, with very little help from other export products. The weakness of the world coffee market is by now painfully clear. Of an estimated expected 1959-60 world coffee production of 59 million bags, only about 41 million is most likely to be consumed. The remaining 18 million will go into carryover stocks which will amount to almost one and a half year's world trade requirements. The largest single carryover stocks will be that of Brazil, which may total about 35 million bags—about equal to the size of its current crop.

While the pressure on the coffee market has been eased by the International Coffee Agreement, under which 15 Latin American countries, plus the African territories of France and Portugal, are restricting their exports, the huge carryover stocks still hang over the market, while the need for limiting production, in Brazil and elsewhere, has yet to be faced squarely. Only heavy early season coffee shipments, as well as the still relatively stable coffee price, have kept Brazil from crashing through the thin ice of its meager foreign exchange reserves, into the familiar, but none-the-less cold waters of full balance of payment crisis.

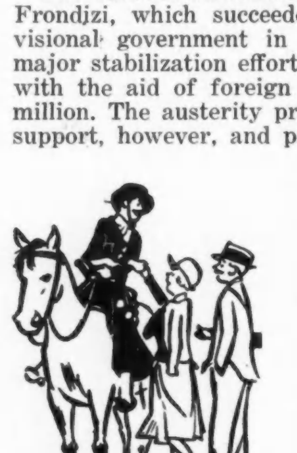
Argentina

In Argentina the current challenge is one of recovery—recovery from the structural imbalance and run-down capital structure which is the heritage from the Peron era. Covering an area about one-third the size of the United States, Argentina contains about 20 million inhabitants. Although the backbone of the economy is still agriculture, the past two decades have witnessed a marked shift toward industry, under the stimulus, first of wartime import shortages, and later of Peronist industrialization policies. The promotion of local production concentrated on formerly imported consumer goods, however, has left Argentine industrial activity highly dependent upon imports of fuels, raw materials and capital goods, which have accounted for 85-90 per cent of total imports.

These imports, moreover, have depended largely on exports of agricultural products, chiefly cereals, oil seeds, cattle and sheep. During the Peron era, exports underwent a sharp decline as the government emphasized industrial development, neglecting the rural sector, and following an inflexible and unrealistic price and exchange rate policy which discouraged agricultural production.

A structural balance of payment deficit developed a shift in income to a politically favored wage and salary earning group. Savings declined drastically, bringing with it a failure to maintain the nation's physical plant, much less expand it. The government, moving increasingly into the operation of business enterprise, devoted an ever greater share of its budget to consumption goods—such as food subsidies and the hiring of a huge corps of civil servants, financing its deficit by tapping first the nationalized banking system and then the social security funds. Ironically, the timing of Peron's overthrow in September 1955 came just before the ill-effects of its policies had made themselves felt. The memory of temporary advantages enjoyed—through the consumption of capital—during the Peron era, added to the difficulties of the present regime in its attempt to gain popular acceptance of the belt-tightening needed for economic recovery.

The current administration of President Arturo Frondizi, which succeeded the revolutionary provisional government in early 1958, launched its major stabilization effort at the beginning of 1959, with the aid of foreign loans totalling over $300 million. The austerity program met lagging public support, however, and prices rose by over 90 per cent during 1959. Growing firmness on the part of the government, however, has reportedly brought increased public confidence, and some moderate progress has been made in divesting the government of various of its unprofitable business enterprises, and a reduction of its swollen civil service payrolls. Success in holding down imports during 1959 allowed the government to



reduce import surcharges at the beginning of this year as the stabilization program's second year of operation, aided by a $250 million foreign credit package, got under way.

The key to Argentine hopes for re-equipment and external balance lies in the new impetus given domestic oil development. For years, since formation of the government oil company (YPF) in 1922, extreme nationalism and the inadequacy of domestic capital and technology have blocked exploitation of Argentina's large proven reserves. By 1958, when the Frondizi government took office, domestic production covered only 40 per cent of consumption and petroleum imports were costing about $300 million in foreign exchange—23 per cent of the total imports, and roughly equivalent to the country's trade deficit.

With an ingenious set of oil contracts the Frondizi government sidestepped the nationalistic obstacles, and brought in the participation of foreign capital and technology to get Argentina's oil out of the ground. The avoidance of "concession" of oil land ownership to foreign companies, broke the nationalistic bottleneck blocking Argentine oil development, and offered a significant solution for other nations to study. Argentine crude oil output has gone from 5.? million cubic meters in 1958, to 8.3 million in 1959 and production of 13 million this year and self-sufficiency with 20 million in 1962 is currently hoped for.

Uruguay

Uruguay, Latin America's earliest modern welfare state, is the smallest country on the continent (roughly the size of New England), and contains 2.7 million inhabitants, over 800,000 of them in Montevideo. An agricultural country, with wool, meat and wheat providing practically all of its export earnings, Uruguay has suffered a serious deterioration in its exchange position in recent years, largely as a result of the government's agricultural policies. A government program guaranteeing high prices for wheat was adopted in the early 1950's to free the country from dependence on wheat imports from Argentina, with which Uruguay was then having political difficulties. The reduction in the supply of cattle which resulted from the plowing of winter pastures, together with the high, subsidized, level of domestic meat consumption has reduced the amount of meat available for export. The combination of supply shortages, labor problems and government regulations led two of the foreign meat-packing companies to close down their plants permanently.

In wool, which provides almost two-thirds of total export earnings, difficulties have also been endemic, as the wool growers, accounting for only a small fraction of the free world's supply, have frequently held their clip off the market waiting for improved world prices or better exchange rate treatment by the government. Under the impact of the countervailing duty imposed by the United States in 1953 to counter Uruguay's subsidization of wool-top exports, the Soviet Union has become Uruguay's leading wool customer, with other Iron Curtain countries also making important purchases.

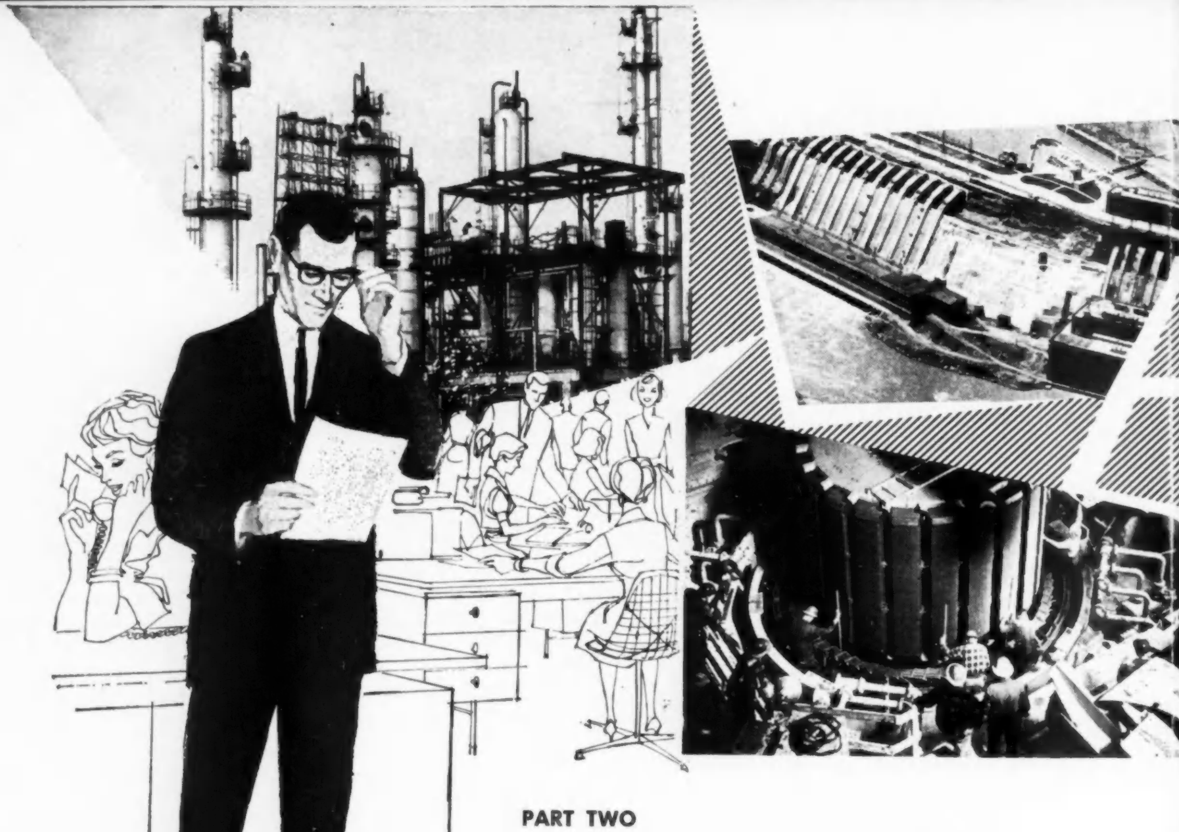
Domestically, Uruguay has been kept a high-cost, high-priced economy by government protectionist policies, a high wage policy implemented by govern-

ment-labor-management wage boards with jurisdiction over most wages, and large budget deficits resulting from heavy pension and subsidy payments inadequately financed by an antiquated tax system which still lacks a personal income tax. Elimination of the cumbersome multiple exchange rate system by the new government, elected last November, has provided one important forward step toward freeing the economy's full productive energies. In the political circumstances which prevail further steps will not be easy.

Chile

Across the continent, in Chile, the President will visit a country 2,600 miles long and only 100 miles wide, with 30 per cent of its six million inhabitants and much of its industry concentrated in the capital province of Santiago. Though predominantly agricultural, the country depends for virtually all its foreign exchange upon the products of its mainly foreign-owned mining enterprises. The world's foremost copper exporter, Chile is second only to the United States in copper production. About 90 per cent of Chilean copper comes from three North American enterprises which together provide about 50 per cent of Chile's total foreign exchange receipts. Under the stimulus of favorable government incentives all three enterprises have recently made heavy new capital investments which should increase copper output considerably over the next few years. In second place, nitrate production, with employment of about 20,300 workers—fully one-third greater than that in copper—shows much less promise of further growth and is giving way on the list to the fast-rising new export product of iron ore.

Chile's chief problem is inflation, which after decades of existence as a persistent low-grade infection, reached raging-fever proportions in 1954 and 1955 when prices rose by about 80 per cent a year. The scramble of all sectors of the economy for protection and advantage gave birth to a host of devices which added impetus to the inflationary spiral and threatened to rend the social and political fabric. Faced with this dangerous situation, the government undertook, with the aid of a team of foreign economic experts, a program aimed at stabilizing the economy, and ending the stagnation to which the postwar inflationary pace had given rise. A chief goal of the stabilization efforts has been the dismantling of the complex machinery of protection and advantage. The economy's rebound from some of the inflation period distortions has not *(Please turn to page 541)*



PART TWO

A CRITICAL ANALYSIS of 30 LEADING BLUE CHIPS

— Backbone of stock market averages

By ROBERT B. SHAW

THE reactionary price tendencies characterizing the market in the first two weeks of 1960, contrasting with the brisk recovery in industrial activity, gave an inkling to the likelihood of deflationary rather than inflationary tendencies.

There were several reasons why holders of blue chips were willing to sell: (1) uncertainty regarding the profits prospects, looking to 1961, (2) the maturity of the bull market with stock prices high by all traditional standards, and (3) an economy exhibiting disturbing abuses albeit with a persistent vitality.

On the money side, the certainty of higher interest rates on the one hand—and, on the other, the uncertainty regarding our position under balance of payments with the countries abroad—exerted pressure on the blue chips.

It is in the light of this background that we have prepared the present examination of 30 highly regarded blue chip stocks, looked upon by analysts as representing the backbone of the market. Familiar as these companies are to nearly all investors, it should be useful to review their recent accomplishments briefly. It is not sufficient, of course, to conclude merely that most of these are "good" companies; a useful appraisal must be related to price, earnings outlook and, beyond these factors, to each investor's personal situation. Sixteen stocks were discussed in the preceding issue, and the remaining 14 will be treated herewith.

Aluminum Company's reputation as a leading growth enterprise is entirely justified by its past performance, despite a discouraging slip in earnings in 1957-58, and in any broad business expansion the former trend is likely to be resumed when demand catches up with the current overcapacity. In competition with other metals aluminum's major advantages are lightness, good heat and electrical conductivity and stain resistance. These features even allow it to compete effectively with non-metals, such as wood and paper, as in foil wrap. Some traditional steel markets, such as bridges and heavy building, have also been invaded by aluminum, and the light

metal is constantly pressing copper in electrical cable and other uses. One railroad recently placed a large order for aluminum freight cars, and the possible introduction of aluminum engine blocks would quadruple present usage by every automobile. Shipments should run 10% higher this year than in 1959.

Alcoa, the original owner of the complex electrolytic process for the reduction of bauxite ore, has, of course, long since lost its former monopoly. Aluminium Ltd. was spun off in 1928, and other important competitors emerged during World War II. Resultant price reductions have served, however, greatly to expand consumption, and economies in the difficult manufacturing process have been achieved with larger volume. Alcoa obtains the bulk of its ore from Dutch Guiana, brought in on its own steamships, and has other reserves at several sites. Substantial interests are held in product plants in Venezuela, Japan, Wales and Norway. Income investors certainly should not consider this stock with its 1.1% dividend yield and price multiple of about 40 times last year's estimated earnings of $2.60 a share, but the long-range picture under its farsighted and aggressive management is highly encouraging.

Anaconda: yielding a considerably more generous 3.8% and appraising indicated 1959 earnings of $6 a share at a modest multiple of only 10, this company presents a sharply contrasting picture. The price of copper is considerably more volatile than that of aluminum, and lacks the advantage of a strong growth trend. After a banner year in 1956 copper prices collapsed and so far have only shown partial recovery. As a matter of fact steady, rather than excessively high, prices are to be preferred in the industry, for the latter both brings many marginal mines into production and stimulates the search for substitutes by copper users. Anaconda also ranks as the fifth largest aluminum producer, with 60,000 tons capacity, although it is dependent upon Reynolds and Kaiser for its ore.

Anaconda operates important mines in Montana and Nevada, but all domestic properties are dwarfed by its large reserves in Chile, where 70% of its output and half of its net income is derived. At a fair price level this low-cost producer should be able to show satisfactory profits, and a further boost in the current dividend rate is indicated for the early future.

A third important branch of the metal industry is represented by **International Nickel,** which holds a near U.S. and Canadian monopoly on its namesake mineral, although outside production is increasing. Actually, the company, at its Canadian properties, mines as much copper as nickel and rates as a major copper supplier, but the higher prices of the white metal means that it contributes about 50% of the company's gross to 25% for copper.

Nickel is, of course, in competition with other alloy metals and yet possesses unique qualities that give it a firm place in the economy, particularly for stainless steel. Although, in common with the entire metal industry, profits plunged in 1958, earnings are normally relatively stable, reflecting the absence of excessive direct competition. The industry, however, has been plagued by recurrent cycles of shortages, followed by over-supply. Between 1956 and 1959, demand actually contracted while a number of new mines were brought into operation. Today, the picture has reversed; demand is climbing and Castro's manipulations threaten to remove the Cuban output from the market. For the year just ended International's earnings probably recovered to around $5.25 a share, and dividend policy should respond. Still, the issue looks rather generously priced.

With a capacity of over four million tons annually **International Paper** is by a wide margin the world leader in its industry. In recent years the paper industry has shown a tendency to move south, and most of International's kraft products, accounting for about 57% of sales, are produced at southern mills, although the bulk of newsprint, 20% of sales, continues to come from Canada. Nearly all sales are domestic, but only last year the company acquired interests in packaging enterprises in Germany and Venezuela. Paper is, of course, a product of extreme versatility and has enjoyed a phenomenal growth in the post-war era. Just the same, at its current multiple of about 22 times last year's estimated earnings of $6.15 a share, this stock is appraising the future outlook very optimistically.

It is hard to deny that the oil industry's luster as a former investment favorite has been badly tarnished by events of the past four years. At first these problems seemed to stem largely from the Suez Canal crisis of November, 1956, but in reality this merely accelerated the chronic overproduction, both domestic and foreign, which has subsequently plagued the industry. Simultaneously, domestic production dropped to a somewhat lower rate of annual increase. These developments, and the decline in leading oil equities, are water over the dam; the question now confronting investors is whether oil stocks are attractive at current prices.

Considerable evidence suggests that their disfavor has been exaggerated. To be sure, most of the industry leaders are expected to report not more than moderate earnings recovery for last year; for **Standard Oil of California** net may remain substantially unchanged from the $4.08 a share for 1958. Price/earnings ratios are, however, relatively moderate, at 12.0 times for California, 16.2 for **Standard of N.J.** and 14.2 for **Texaco.** These three internationals are adversely affected by the domestic import control program, but can benefit from the more rapid expansion of demand abroad. Emphasis is changing, in fact, from foreign producing properties to marketing outlets. N.J. Standard's 50% owned Standard-Vacuum affiliate distributes petroleum products in more than 50 Eastern Hemisphere countries, while California and Texaco compete closely through their jointly controlled **Caltex** organization.

While immediate recovery from the depressing inventory picture is not in sight, world-wide energy requirements will certainly continue to accelerate, and moderate optimism is justified for the industry. For conservative investors the integrated (producing-refining-marketing) companies look like the best choice, and the internationals, at slightly greater risk, offer interesting opportunities.

The retail stores offer a pleasant respite from the effects of the 1958-59 recession; this consumer-related industry is, of course, traditionally immune to cyclical influences. Thus, **Sears, Roebuck** enjoyed a narrow gain in earnings to $2.21 a share in 1958,

and is expected to report a wider advance to about $2.60 for the fiscal year just ending. The recent labor victory in the steel industry, with its unfavorable implications for profit margins in general, should nevertheless enhance consumer purchasing power and lift retail sales. Although competition in the industry is intense, large-scale, low-cost organizations should be able to maintain their profit margins. Sears' Latin-American business is now distinctly profitable, and only last year its Allstate Insurance subsidiary opened a European affiliate in Switzerland. Even at 19 times estimated earnings Sears looks like better current value than most issues.

Woolworth presents a sharply contrasting picture. The variety chains, partly through lack of aggressiveness and partly as a result of being tied in to unfavorable downtown locations by long-term leases, have shown a tendency toward stagnation in recent years. The high proportion of sales personnel required, their sharply rising wage rates, and the small profit per transaction have also had their damaging effects. For reasons not entirely clear these chains have been slow in following the food stores in self-service and other innovations. Woolworth has, as a result, experienced a slightly declining earnings trend, while its $2.50 dividend has remained unchanged for over a decade. The continuation even of this rate was probably made possible only by the $12 million in dividends received annually from the more prosperous British (53% owned) and German (97%) subsidiaries.

A new president took office two years ago, and new policies are likely to ensue. Already self-service is being pushed and many stores in poorer locations are being closed. A recovery in earnings is expected for the year just ended which, while not spectacular, will mark a new high since 1950. Nevertheless, a rapid correction of all the difficulties mentioned will be difficult to achieve, and the issue cannot be considered particularly attractive at its current price.

In the steel industry conflicting tendencies appear. During the strike inventories were reduced to a low of 5 million tons, contrasted with a normal level variously computed as between 12 and 20 million tons. Thus, filling the pipe lines alone will superimpose a heavy demand upon normal requirements for 1960, almost certain to be a boom year. Operations should run close to 90% of capacity, and this assures excellent earnings for most companies. The two largest components, **Bethlehem** and **U.S. Steel**, are currently selling at high ratios of about 21 times their estimated earnings for 1959 of $2.50 and $4.50 a share respectively, but recovery merely to the 1954-57 level would result in quite moderate appraisals. Suggestions that the price of steel will not be raised to meet the higher wage costs must be accepted for what they are—political blandishments.

But all is not rosy in the steel outlook. The strike settlement represented a substantial defeat for the industry, particularly in its failure to incorporate any firm provisions for work rule changes. Depreciation rates, based on historical costs, are proving increasingly inadequate to pay for replacement properties. Foreign competition is likely to intensify, and with the opening of the St. Lawrence Waterway, German steel can now be laid down very cheaply in the American "Heartland." Although the steel industry has admittedly achieved a higher investment status in recent years, these problems suggest that its earnings should always be appraised conservatively, and the stocks of the two companies mentioned look fully priced at present.

The largest of the Big Four in the tire and rubber industry, **Goodyear** derives about 60% of its sales dollar from tires. As a somewhat larger proportion of tire earnings than for its competitors come from replacement sales, the company is less dependent upon annual automotive sales. As nothing seems likely to interrupt the constantly rising trend of vehicle registrations (now 57 million) and the tendency to get more mileage out of each car, the prospect for Goodyear is decidedly favorable. The company has also achieved moderate diversification into other industries, including plastics and electronics, while its chain of 500 retail stores contributes to stability. Nevertheless, the recently split shares recognize these factors adequately.

American Tobacco, proprietor of the first (Pall Mall) and third (Lucky Strike) most popular cigarette brands, shares in the stability characteristic of its industry. With three exceptions only American has shown a consistent gain in sales every year for over two decades. Dividend policy is usually liberal but at present is lagging further behind last year's estimated earnings of $9.10 a share than usual, even after allowing for the increase to $5.75 on the present basis to take place after the 2-1 split in April. Thus, a further boost before long is not an unreasonable expectation. The resultant price/earnings ratio of 11.7 times and yield of 4.6% make this one of the most conservative issues of the entire list under discussion. Although the cancer scare should not be altogether disregarded people seem determined to smoke irrespective of some slight health risk involved, and American looks like one of the more attractive values under present conditions.

American Telephone perhaps looks out of place on a list of industrial stocks, and yet it fully qualifies for this category by virtue of its important manufacturing subsidiaries, Western Electric and Bell Laboratories. Western Electric by itself, as a matter fact, ranks as the country's tenth largest manufacturing enterprise. Formerly engaged primarily as a supplier to its parent it has become a major participant in the missile program, and sales have tripled within the past ten years. It is altogether possible that Western will some day be spun off as an independent enterprise.

A.T.&T. can probably qualify as the best known company in the country, both to investors and the general public. It derives about 39% of its communications revenue from its directly operated toll lines and 61% from its investments in the regional Bell System subsidiaries. The company is characterized primarily by its stability; until last year's split the old $9 dividend had not been changed for 36 years and looked almost as immovable as the Rock of Gibraltar. Nevertheless, earnings have shown a more buoyant tendency in recent years, and last year's expected net of about $5.15 a share will represent not merely a new record but the seventh consecutive annual increase. Unexciting as it may be,

Statistical Data on 14 Blue Chips

	Net Sales 1958 (Millions)	Net Sales 1st 9 Mos. 1959 (Millions)	Earnings Per Share 1958	Earnings Per Share 1st 9 Mos. 1959	Recent Price	Price Earnings Ratio *	Current Div. **	Div. Yield	Foreign Interests
METALS (Non-Ferrous)									
Aluminum Co. of Amer. ..	$753.1	$643.0	$1.96	$1.88	103	39.6	$1.20	1.1%	Princ. aluminum source in Dutch Guiana; joint ventures in Venezuela, Japan, Norway & U. K.
Anaconda	523.1	NA	3.16	4.40	65	10.8	2.50	3.8	4 important mines in Chile, one in Mexico.
International Nickel	322.0	317.5	2.72	3.99	106	20.1	3.00	2.8	Properties of former Mond Nickel Co. in Great Britain.
PAPER									
International Paper	915.1	768.8	5.46	4.58	132	21.4	3.00[2]	2.2	Joint ventures in packaging companies in Germany, Venezuela and Israel.
PETROLEUM									
Standard Oil of Calif.	1,559.1	1,167.3	4.08	2.85	48	12.0	2.00	4.1	30% int. in Aramco; 50% Caltex; 7% Iranian Consortium; explor. in Venezuela.
Standard Oil of N. J.	7,543.5	6,020.0	2.62	2.22	48	16.2	2.25	4.6	Worldwide interests, incl. Aramco (30%) Iraq Pete Co. (12%), Creole (95%); & numerous other subs.
Texaco	2,327.9	1,996.4	5.31	4.41	82	14.2	2.60[2]	3.1	30% int. in Aramco; 50% Caltex; 7% Iran. 49% of earns. from for. sources.
RETAIL									
Sears Roebuck	3,721.2	3,070.3	2.21	1.70	50	19.2	1.45	2.9	$7 million div. from Latin Amer. nonconsol. subs; 24% owned affiliate in Australia.
Woolworth (F. W.)	864.5	383.4[3]	3.34	1.44[3]	64	16.8	2.50	3.9	British affiliate (53% owned) German (97%) contrib. 1/3 parent co. net income.
STEELS									
Bethlehem Steel	2,005.9	1,646.8	2.91	1.75	54	21.6	2.40	4.4	Important ore sources in Venezuela and Chile.
U. S. Steel	3,438.6	2,894.7	5.13	3.80	96	21.3	3.00	3.1	Subs. Orinoco Mining Co. (Venezuela) has 550 million tons high-grade ore reserves.
TIRE & RUBBER									
Goodyear Tire & R.	1,367.5	1,203.5	2.03	1.81	46	20.9	.90[2]	1.9	Rubber plantations in Sumatra, Philippines, Cent. Amer.; subs. in Europe, Japan, Sou. Africa & Latin Amer.
TOBACCO									
American Tobacco	1,103.0	866.3	8.55	6.89[1]	107[1]	11.7	5.00[1]	4.6	Processing plants and warehouses in Greece, Turkey and Cuba.
UTILITY									
American Tel. & Tel.	6,771.4	7,351.3[4]	4.67	5.16[4]	81	15.7	3.30	4.0	Foreign properties negligible but conducts important international communications business.

NA—Not available.
*—Based on estimated 1959 earnings.
**—Based on latest dividend rates.
[1]—Stockholders vote 4/6/60 on 2 for 1 stock split.
[2]—Plus stock.
[3]—6 months.
[4]—12 months ended 11/30/59.

the stock is conservatively priced relative to its own past earnings relationships and should be worth buying at present.

For the 30 stock group as a whole, however—at the risk of repetition—prices look high. The average price/earnings ratio for the group is 20.1 times, and this includes several individual issues such as United Aircraft and International Harvester which are, for particular reasons, selling at very modest multiples of current earnings. "High" is, of course, a relative term but in the past (1953-57) these stocks have typically sold at about 12.5 times annual earnings. A change of this magnitude in the former relationship should be justified by very specific developments. One common explanation is that the likelihood of permanent inflation now warrants a more generous appraisal of current earnings. But it must be remembered that inflation is neither a new condition nor is it likely to proceed without interruption. Again, the high price/earnings ratios may be simply a reflection of very favorable operating results expected this year. Just the same, for most of the companies covered, these ratios seem to have approached an extreme.

With a few exceptions—United Aircraft, Swift, Woolworth—these stocks are all sound investments. Nevertheless, they are not going to be immune to a major stock market reversal. And it should not be assumed that the market will always continue to advance. END

CANDIDATES FOR STOCK SPLITS IN THE INSURANCE FIELD

— Revealed by our Annual Reappraisal of Fire — Casualty — and Life Companies

By PAUL J. MAYNARD

- **How to evaluate insurance shares—why these stocks are volatile—1957-58-59 basis of income position for individual companies**
- **Problems still unsolved—competitive pressures—mergers in the making**
- **Stockholders looking to 1960-61—position of the individual life companies—candidates for stock splits and higher dividends**

IN 1959 both fire and casualty insurance stocks and life insurance stocks as a whole made little progress as measured by their market price action. They were handicapped in part by the fact that they started from a high point in January 1959. Then the fire and casualty stocks had to contend with a generally unprofitable first quarter of underwriting results while the life insurance stocks had to live through the passage of a new Federal income tax law applying to life insurance companies.

As the year progressed, however, it became apparent that both the fire and casualty insurance companies and the life insurance companies, were turning in improved performances as measured by their growth in premium volume, the profitability of their underwriting operations and their income from investments.

Reflecting the improvement in both underwriting results and in net investment income, a growing number of both fire and casualty insurance and life insurance companies increased their dividend payments to shareholders. This was done in several ways. In some instances the cash dividend rate was raised, but more common were the declarations of stock dividends. Among the 28 fire and casualty insurance companies included in the accompanying table there have been 14 dividend increases during the past year, 7 by means of stock dividends and 7 by means of higher cash dividend rates. Among the 15 life insurance companies in the other table, 7 announced stock dividends and 2 raised their cash rates during the past year. Assuming no material change in present conditions and trends in the insurance industry during the balance of 1960, it seems safe to say that before the end of the year several more insurance companies will increase their payments to shareholders, probably with greater emphasis on stock dividends than on cash rate hikes.

Profit-Loss Position

Both the investors in fire casualty insurance company stocks, and the managements of those companies, are sensitive to the profitability or lack of profitability of insurance underwriting activities. The combined loss and expense ratio, which relates underwriting losses to premiums earned, and underwriting expenses to premiums written, is the generally accepted guide to underwriting results. The excess of this *ratio above 100% is the margin of loss*, and the amount by which it is *less than 100% is the margin of profit*. The following figures show the average combined loss and expense ratios for a representative group of stock fire and casualty insurance companies for 1958 and for the first three quarters of 1959:

		1959			
	1958	1st Quar.	2nd Quar.	3rd Quar.	9 Mos.
Loss Ratio	61.7%	67.3%	59.8%	59.2%	61.9%
Expense Ratio	40.1	37.5	37.4	37.2	37.4
Combined Loss & Expense Ratio ...	101.8%	104.8%	97.2%	96.4%	99.3%

These ratios show clearly the progress made by the fire and casualty insurance stock companies in reducing their loss and expense ratios from 101.8% in 1958 to 99.3% in the first nine months of 1959.

They also show that the improvement was achieved in 1959, despite an even worse than seasonally bad first quarter, when exceptionally severe weather contributed to a sharp rise in fire losses. Most encouraging has been the decline in the expense ratio from over 40% in 1958 to 37.4% in the first nine months of 1959.

Where Savings Have Been Made

This has been accomplished by better control of underwriting costs and some reductions in commission rates paid on certain mass lines of coverage.

► Chief among these lines is automobile liability insurance, where financial responsibility laws and compulsory insurance laws have minimized the need for sales effort.

► Rate increases granted by various state insurance departments in several liability and property lines in 1957, 1958 and 1959 also have contributed toward greater profitability. Rate relief always is slow in a regulated business such as the insurance industry.

In this field, for example, the beneficial effects of

Data on Leading Fire and Casualty Insurance Company Stocks

	Market Bid Price		Net Investment Income		Dividend Rate	Yield	Dividend As % Estimated 1959 Invest.Inc.	Estimated Liquid. Value 6/30/59	Price As % of Liquid. Value	Combined Loss & Expense Ratio	
	12/31/58	12/31/59	1958	1959 Estimated*						1st 9 Mos. 1958	1st 9 Mos. 1959
Aetna Insurance	78½	75	$6.16	$7.00	$2.60	3.47%	37.1%	$131.53	57.0%	102.9%	102.8%
American Insurance	27½	26½	1.99	2.05	1.30	4.91	63.4	35.67	74.3	103.6	101.1
American Re-Insurance [1]	37⅞	42½	2.46	2.60	1.25	2.94	48.1	41.03[5]	103.6	93.6	93.3
Boston Insurance	34¾	32⅞	2.62	2.65	1.80	5.48	67.9	55.62[5]	59.1	105.9	105.1
Continental Casualty-National [2]	55½	71½	2.15	2.30	1.00	1.40	43.5	84.97	84.1	98.7	97.0
Continental Insurance-Loyalty [3]	56⅛	53¾	3.28	3.30	2.00	3.72	60.6	80.60	66.7	106.1	104.3
Federal Insurance	60¾	58½	1.70	1.76	1.00	1.71	56.8	41.78	140.0	92.7	91.3
Fireman's Fund [4]	47⅜	51⅛	3.31	4.12	1.80	3.52	43.7	61.21	83.5	102.2	98.8
General Reinsurance	72½	91	5.13	5.40	2.00	2.20	37.0	83.21	109.4	94.1	94.5
Glens Falls	35	33¾	2.68	2.85	1.00	2.96	35.1	55.53	60.8	102.3	101.6
Great American	46⅛	42⅝	3.74	4.00	1.60	3.75	40.0	80.68	52.8	104.3	101.5
Hanover Insurance	44	39¼	3.99	4.50	2.00	5.10	44.4	71.49	54.9	107.9	106.7
Hartford Fire Insurance [6]	188	202	8.31	9.40	3.00[6]	1.49	31.9	134.92[5]	149.7	99.6	99.0
Home Insurance	46⅜	53	3.69	3.75	2.20	4.15	58.7	92.37	57.4	104.6	99.4
Insurance Co. of Nor. Amer.	137	130	5.12	5.25	3.00	2.31	57.1	115.17	112.9	100.2	99.1
Maryland Casualty	41	36⅛	2.72	2.85	1.50	4.15	52.6	45.74	79.0	102.0	101.2
Massachusetts Bonding & Ins.	39¾	36¾	3.95	4.00	1.60	4.35	40.0	53.12	69.18	107.4	96.2
National Union	42½	36¾	4.05	3.50[7]	2.00	5.44	57.1	65.40	56.2	106.1	103.1
New Amsterdam Casualty	49¼	48¾	7.90	8.25	2.00	4.10	24.2	80.45	60.6	111.5	110.0
New Hampshire	44	51	4.23	4.45	2.10	4.12	47.2	100.99	50.5	103.7	98.7
Northern Insurance	44½	41¾	2.45	2.65	1.50	3.59	56.6	67.32	62.0	102.6	99.9
Phoenix Insurance	78½	81¾	6.30	6.35	3.00	3.67	47.2	161.81	50.5	110.3	104.2
Providence Washington Ins. Co.	23½	20¼	2.28	2.28	0.80	3.95	35.1	36.75	55.1	103.6	98.8
Reliance Insurance [8]	48⅝	49	4.32	4.38	2.20	4.49	50.2	81.32	60.3	106.0	101.7
St. Paul Fire & Marine	60	53	2.17	2.27	1.30	2.45	57.3	46.10	115.0	97.7	97.5
Springfield Fire & Marine	34¾	31⅛	1.48[9]	1.55[9]	1.00	3.21	64.5	45.04[5]	69.1	105.1	102.3
Standard Accident	59½	58½	5.52	6.00	2.00	3.42	33.3	88.45	66.1	106.4	100.1
U.S. Fidelity & Guaranty [10]	37⅜	34⅜	2.48	2.60	1.00	2.91	38.5	47.60	72.2	101.2	98.5

*—Estimated based generally on first half investment income.

1—Adjusted for 2% stock dividend.
2—Adjusted for 100% stock dividend.
3—Adjusted for 10% stock dividend.
4—Adjusted for 25% stock dividend.
5—As for December 31, 1958.
6—Based on 2,675,000 shares. Not adjusted for proposed 100% stock dividend plus 2 for 1 split. Dividend on new stock to be $1.10 per share.
7—Pro forma on 800,000 shares outstanding.
8—Adjusted for 5% stock dividend.
9—Does not include undistributed earnings of Monarch Life.
10—Adjusted for 2 for 1 split and 10% stock dividend.

automobile liability rate increases on earnings, lags by about two years. *It takes a year for all policies to be rewritten at the higher rates and it takes another year for the written premiums to be earned. Thus the 20% automobile liability rate increase granted by the New York Insurance Department last April, will not be fully reflected in earnings until 1961.*

Life Insurance Industry Data

	Life Insurance In Force (in Billion's)	Admitted Assets (in Billion's)	Death Rate Per Thousand	Net Rate of Interest Earned in Invested Funds Before Income Taxes
1959 (Estimated)	$534.0	$113.6	9.4	3.95%
1958	493.6	107.6	9.5	3.85
1957	458.4	101.3	9.6	3.75
1956	412.6	96.0	9.4	3.63
1955	372.3	90.4	9.3	3.51
1954	333.7	84.5	9.2	3.46
1953	304.3	78.5	9.6	3.36
1952	276.6	73.4	9.6	3.28
1951	253.1	68.3	9.7	3.18
1950	234.2	64.0	9.6	3.13
1949	213.7	59.6	9.7	3.06

Why These Stocks Are Volatile

The sensitivity of investors in fire and casualty insurance stocks to underwriting profitability or lack of profitability is quickly reflected in the market action of this group of stocks. Thus the strong market for these equities late in 1958 and early in 1959 was traceable to the fact that the last half of 1958 was a much more satisfactory period from the standpoint of underwriting results than the first half. Similarly, as soon as the generally poor underwriting results of the first quarter of 1959 became public knowledge, the market prices of most fire and casualty insurance company stocks fell off sharply. It was not until late in 1959, when it became apparent that sharp improvements in underwriting results in the second and third quarters had generally more than offset losses of the first quarter, that insurance stocks strengthened.

Patience the Answer to Stock Splits and Extras

Better underwriting results in the second and third quarter of 1959, with intimations that the fourth quarter also was likely to show continued improvement, encouraged managements of many fire and casualty insurance companies to increase their dividend payments to shareholders.

The growth in net investment income had long justified higher dividend payments, but managements were generally reluctant to increase pay-out rates until such time as underwriting operations became more profitable, or at least less unprofitable than they had been. Such companies as Continental Casualty paid a 100% stock dividend, Fireman's Fund declared a 25% stock dividend, Hartford Fire announced a 100% stock dividend plus a 2 for1 split, United States Fidelity & Guaranty announced a 2 for 1 split and 10% stock dividend, and Reliance Insurance announced a 5% stock dividend, causing investors to realize that the patience of holders of insurance stocks was being rewarded and that managements were confident that the underwriting cycle had changed for the better. Perhaps the unfavorable phase of the cycle had been from the middle of 1955 to mid-1958. If that were the case, the favorable phase probably should extend at least to mid-1961.

Rising Income from 1957 Through 1959

Net investment income of a representative group of fire and casualty insurance companies increased by 5.8% in 1958 over 1957, and on the basis of estimated 1959 figures, the gain in net investment income over 1958 was *(Please turn to page 544)*

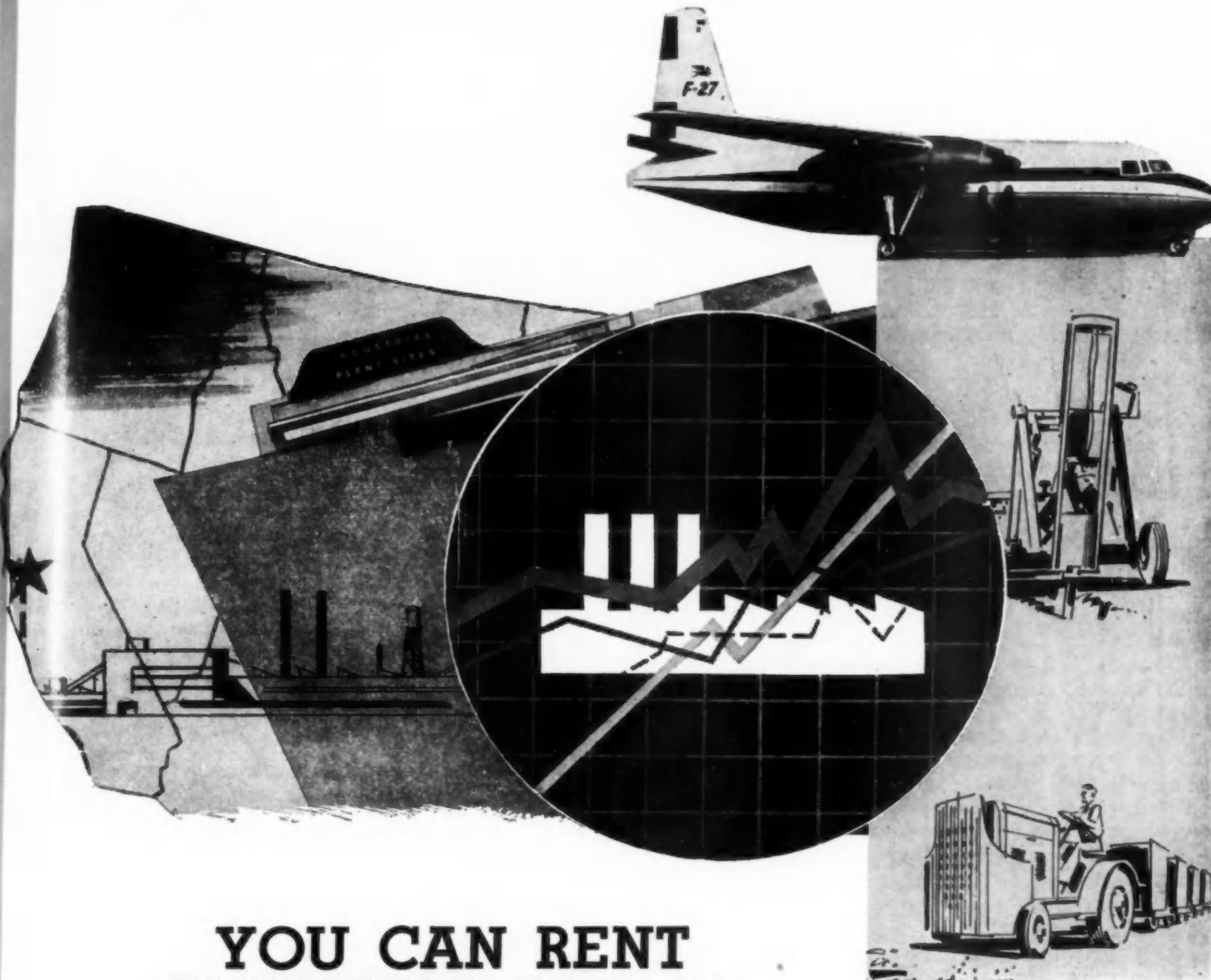
Data On Leading Life Insurance Company Stocks

	Market Price At 12/31/58*	Market Price At 12/31/59	% Change From 12/31/58	1958 Adjusted Earnings [1]	Present Dividend Rate	Yield	Dividend as % of Adjusted Earnings	Price Times Adjusted Earnings	Estimated Total Equity Value At 12/31/59 [2]	Price As % of Equity Value	Increase In Life Insurance In Force 1948-58
Aetna Life	91½	85	— 7.1%	$4.87	$1.40	1.65%	28.7%	17.5	$79.84	106%	180%
Commonwealth Life	23⅛	21⅜	— 7.6	1.12	.20	.94	17.9	19.1	13.46	159	197
Connecticut General Life	358	353	— 1.4	17.47	2.40	.68	13.7	20.2	227.06	155	241
Continental Assurance	134⅜	155	+15.3	6.31	1.20	.77	19.0	24.6	61.39	252	416
Franklin Life	75½	84½	+11.9	3.50	.45	.53	12.9	21.3	23.04	367	383
Gulf Life	22¼	20⅝	— 9.6	1.35	.50	2.48	37.0	15.3	18.88	109	163
Jefferson Standard Life	89	96½	+ 8.4	7.11	1.25	1.30	17.6	13.6	74.37	130	159
Kansas City Life	1570	1420	— 9.6	118.37	10.00	.70	8.4	12.0	1,451.76	98	71
Liberty National Life	38⅝	62¼	+61.2	2.40	.34	.56	14.2	25.9	18.27	341	195
Life Insurance Co. of Va.	53½	48	—10.3	4.52	1.20	2.50	26.5	10.6	64.88	74	104
Lincoln National Life	252	244	— 3.2	16.85	2.00	.82	11.9	14.5	175.61	139	187
Monumental Life	65½	57	—13.0	5.54	1.20	2.11	21.7	10.3	58.40	98	74
National Life & Accident	120½	113¾	— 5.6	7.74	.60	.53	7.8	14.7	63.23	180	158
Travelers Insurance	95¼	85	—10.8	6.06	1.40	1.65	23.1	14.0	78.03	109	158
United States Life	46	43¼	— 6.0	2.12	.15	.35	7.1	20.4	18.75	231	418
Average of 15 Companies			+ 0.8%			1.18%	17.8%	16.9%		170	207%

*—Adjusted for any subsequent stock dividends and/or splits.

1—Includes equity in increase in life insurance in force valued at $15 per thousand for ordinary, $5 per thousand for group, and 50% of annual premiums for industrial.

2—Includes equity in life insurance in force at same valuations as in 1.



YOU CAN RENT ANYTHING TODAY

—From a Car to a Fully Equipped Plant Built to Your Needs

By ARMAND KRAUSS

LEASING of equipment has become big business. Less than ten years ago, the figures were infinitesimal, and only three years ago little more than $180 million was spent for leased equipment by businesses. This year, however, the figure will rise to close to half a billion dollars and if the current growth curve continues it will not be many years before equipment leasing takes its place among America's major industries.

This conclusion stems not only from the impressive growth figures, but also out of the rapidly mounting list of items that are now up for hire—even including entire plants, and of course machinery of every type. Of long range industrial and financial significance is the massive movement among the railroads to rent their rolling stock rather than provide their own capital; the trail blazing done by **American Airlines** when it rented $80 million worth of jet engines from the manufacturer, cutting the capital cost of its jet program significantly below the initial estimate of $445 million; and the growing list of important companies that are earning significant revenues by renting equipment.

In the accompanying table the reader will notice that except for Hertz, General American Transportation and Union Tank, all of whom have long associations with rentals, few of the companies would automatically bring the subject to mind. Yet **Yale & Towne** and **Food Machinery** have set up entire divisions just to handle their rental business. **International Business Machines,** despite a court order forcing it to sell as well as lease equipment, is expanding its operations rapidly, and in fact, has set up a separate operation for the part time rental of computing and other large business machines.

This particular innovation is especially important

since the high cost of computing machines was beginning to dim some of the glamor among companies that could not find enough uses to warrant the huge capital outlays required.

Perhaps the rapid spread of equipment leasing can be summed up best by listing the important new areas that developed in 1959 alone. In that year major companies rented machine tools, earth moving equipment, radio transmitters, tug boats, jet aircraft, helicopters, a fully equipped soft drink bottling plant, new and fully stocked supermarkets, whole department stores and a broad sampling of electronic testing equipment.

Why Rent?

The rapid and broadscale rise of rentals implies that there is more to the movement than just cost saving for the user. As a matter of fact, very often the cost of leasing is higher than outright purchase, especially for companies that still enjoy fast write-off privileges. Nevertheless, there are other overriding reasons that explain the leasing trend. Tight money, of course, is giving the movement a temporary boost since the general unavailability of money is actually forcing some companies to rent their equipment. But if the field depended only on those who were forced to rent, it would have a limited future at best.

Of greater importance is the fact that many companies are now finding that they can operate more efficiently if they use capital to purchase materials and supplies for product manufacture, instead of freezing it in long-term equipment. The cost of renting may be higher than purchasing, but the freed working capital cuts down the need for borrowing to carry inventories and allows for better purchasing economies through large-scale buying.

Another important reason is that rapid obsolescence plays an important role. The Sylvania Electric Division of **General Telephone & Electronics,** in fact, now makes a policy to lease much of its newly developed products.

A lesser known, but equally important reason for leasing is the practice of testing the feasibility of a new product with rented equipment before deciding to invest huge sums in the project. In effect, it enables companies to test out ventures that they might not have tried otherwise. Suppose, for example, that a good new product idea is stymied by the fact that production equipment is prohibitively high. Management can still go into operation with rented facilities until it determines whether or not profits justify the capital expenditures.

Other reasons, undoubtedly, exist; many of them peculiar to individual companies, but whatever the reasons, the rental idea is spreading. Few companies have gone as far as the Ramo-Wooldridge Division of **Thompson-Ramo** and leased almost 75% of all the equipment made in its plants, but perhaps the time is not far off when even leasing on this large scale will be commonplace.

Major Leasing Companies

The new leasing field has many components. There are those who deal in a multiplicity of products, and others who specialize in a narrow area. In the first category two lesser known, over-the-counter companies, U. S. Leasing and Boothe Leasing are in the vanguard. Among the specialists are such giants as Hertz, which concentrates on automobile rentals, and Ryder Systems, an over-the-counter company which is fast becoming a major factor in the trucking industry.

Hertz provides a good illustration of the profit potential inherent in rentals. The company rents both to individuals and to businesses and also does some truck renting. So successful has the operation been, that the auto industry sees the time, in the not too distant future, when rentals will consume more than 25% of all automobile production. This, of course, would mean further expansion for Hertz, now world-wide in scope, and with 1700 branches.

In the last few years, per share profits have risen steadily, and except for a recession dip in 1958, growth has been persistent. Per share earnings were $1.11 in 1955, rose to a peak of $1.83 in 1957, dropped to $1.47 in 1958, but by September 1959, nine months earnings had already exceeded the record of $1.83 for the full year 1957.

The company has been aggressive in setting up working agreements with the various Credit Card companies as part of its policy toward making rental easy and painless. As a matter of fact, it is interesting that **American Express** too, which recently entered the credit card field in a big way, is now ready to enter the rental field as well. Since the company has a long record of success in its many endeavors, it seems certain that the management sees a lucrative source of new income in this field.

Office Equipment

The major office equipment manufacturers have always rented out equipment. When it was confined to typewriters and adding machines, however, the revenues were not too significant. Now, though, with rentals ranging from small typewriters all the way to multi-million dollar computing machines and entire data processing systems, the industry has taken a new "lease on life"—if a pun can be pardoned. IBM's successful operations have been mentioned, but it has plenty of company. **Burroughs,** although it entered the field late, is making strong headway in both the sale and rental of bank automation equipment, as is **Royal McBee. Underwood** withdrew from electronic equipment manufacturing, but since the recent acquisition of the controlling stock by Olivetti of Italy, there is promise of more aggressive selling and rental promotion of standard office equipment.

Burroughs still has a few years of small profits ahead, largely because of the huge research outlays that must be amortized, but the company is over its worst now and should begin to show some results. Investors will require patience, however, before higher earnings and dividends materialize.

In a separate business machine area, **Pitney-Bowes** has cornered the postage machine market, and until recently conducted only a rental business. The results have been highly profitable, but in the last year government anti-trust action has changed the picture significantly. Like IBM, Pitney must now allow its customers to buy the machines if they want to, and the company was also forced to license its

patents to other manufacturers. In addition, the post office department has served notice that it will be receptive to machines produced by other manufacturers.

The upshot of all this is not too serious immediately for Pitney-Bowes, but the promise of greater competition has spurred the company on to an accelerated new product development program, which will eat away profit growth for many years to come. As a matter of fact, the impact of this new pattern is already manifesting itself. In 1958, despite the recession, Pitney Bowes raised its earnings to $1.07 per share from $1.02 the year before. In 1959, however, nine months earnings failed to advance at all over the 1958 figures.

Railway Equipment Leasing

The renting of railway rolling stock is one of the oldest major fields and has long been dominated by **General American Transportation, Union Tank,** and **North American Car.** Traditionally, these companies have enjoyed stable earnings from rentals, but have not shown any rapid increases in earnings. General American, however, now conducts manufacturing operations which will lead to a broader line of equipment for both sale and rental. Consequently, with a new spate of broadscale equipment leasing about to commence, earnings may expand. So far the impact has been mild, however. Earnings declined slightly in 1958, but by September 1959 they were back to previous levels. For the full year per share net should reach the record of $3.31 earned in 1957.

Electronic Equipment

The new trend toward rental of electronic equipment has spread so widely that even giant **General Electric** is deeply involved. GE has a whole list of items for rent, some of them with such strange names as "meggers" for $24 per month, "gaussmeters," $12 per month and "frequency transducers" for $48 per month. Of course for GE the revenues derived from rental operations are small, but they do illustrate how strong the trend has become. In effect, GE, like everyone else, must offer its customers competitive services.

For **General Telephone's** Sylvania Division the revenues are more important, but still small compared with its overall business. Nevertheless, there are many in the electronic industry who feel that eventually leasing will provide a major source of revenue, and the big companies are obviously not going to stand idly by while others skim off the cream.

Other Companies That Derive Important Income from Rentals

In a wide band of industries there are many other companies that derive large income from rental operations. **American Machine & Foundry,** so often successfully recommended on these pages, needs little repeating again. However, it is of interest that rental operations provide enough income to cover all dividend requirements.

Ex-Cell-O Corp. is another major company that derives truly important *(Please turn to page 543)*

Companies Active In the Rental Field

	Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Earnings Per Share 1957	Earnings Per Share 1958	1st 9 Months Net Sales 1958 (Millions)	1st 9 Months Net Sales 1959 (Millions)	1st 9 Months Earnings Per Share 1958	1st 9 Months Earnings Per Share 1959	Current Div. Per Share(*)	Prince range 1959-1960	Recent Price	Div. Yield
Addressograph-Multigraph	$128.4[1]	$132.1[1]	$3.24[1]	$3.22[1]	$ 30.5[2]	$ 35.1[2]	$ .58[2]	$ .88[2]	$1.50[7]	125 - 94¾	110	1.3%
American Express	53.8	59.0	3.11	3.42	N.A.	N.A.	N.A.	N.A.	1.20	46 - 18½	42	2.8
American Machine & Foundry	227.5	184.1	1.76	1.60	160.2	199.3	1.00	1.67	1.30	54⅝- 45⅛	53	2.4
Burroughs Corp.	281.2	292.5	1.67	.97	208.4	256.2	.64	.80	1.00	45¾- 28¾	34	2.9
Compo Shoe Machinery	4.3	4.7	.56	.81	4.4	5.1	.68	.70	.40	10⅛- 7⅛	7½	5.3
Ex-Cell-O Corp.	168.8	123.8	3.89	2.91	101.7	80.9	2.15	1.33	1.50	49⅞- 34⅛	38	3.9
Food Machinery & Chemical	313.9	323.1	2.30	2.39	241.0	266.4	1.80	2.39	1.20	55⅜- 40	50	2.4
General American Transport.	220.7	206.0	3.30	3.03	157.8	149.2	3.22	3.77	2.10	67½- 51¼	62	3.3
General Telephone & Electronics	842.5[8]	885.4[8]	3.12	2.94	641.3[8]	772.5[8]	2.19	2.36	2.20	85⅛- 60	81	2.7
Hertz Corp.	78.7	90.5	1.92	1.47	67.2	81.1	1.05	1.83	1.30	46⅞- 34	40	3.2
International Business Mach.	1,000.4	1,171.7	4.91	6.93	866.0	940.9	2.24	2.06	2.40[7]	488 -385½	423	.5
Minneapolis Honeywell Reg.	324.8	328.4	3.07	3.23	233.2	273.8	2.12	2.97	1.85	150 -111½	134	1.3
National Cash Register	382.5	393.7	2.57	2.19	282.9	298.9	1.49	1.66	1.20[7]	80 - 55⅛	65	1.8
National City Lines	25.0	24.5	2.74	5.49	17.9	19.0	4.90	3.82	2.00	32¼- 26⅜	29	6.8
North American Car Corp.	15.3	16.0	2.01	2.04	11.8	13.6	1.45	1.68	1.50	40⅜- 32	37	4.0
Pitney-Bowes, Inc.	45.9	51.3	1.02	1.07	36.7	41.3	.76	.77	.60	45⅜- 32	36	1.6
Royal Mc Bee Corp.	101.9[1]	103.9[1]	d .05[1]	.62[1]	23.2[2]	26.7[2]	d .13[2]	.25[2]	—	24⅜- 16	18	—
St. Regis Paper	376.1	376.8	2.52	2.42	271.1	317.8	1.52	2.20	1.40[7]	56¾- 42¾	51	2.7
Sperry Rand Corp.	864.3[3]	989.6[3]	.96[3]	.96[3]	439.4[4]	553.7[4]	.38[4]	.66[4]	.80	28¼- 21⅛	24	3.3
Tishman Realty	12.2[9]	13.7[9]	2.12[9]	1.50[9]	13.7[9]	14.0[9]	1.50[9]	1.67[9]	.50[7]	26⅛- 19⅜	21	2.3
Union Tank Car	62.9	94.8	2.64	2.16	64.1	80.7	1.66	1.31	1.60	37¾- 29¼	31	5.1
United Shoe Machinery	55.8[5]	56.1[5]	4.08[5]	3.85[5]	65.2[6]	71.5[6]	2.47[6]	3.02[6]	2.75	65¼- 45⅝	56	4.9
Yale & Towne Mfg.	128.5	115.7	2.11	1.62	85.7	102.6	.95	1.43	1.50	39½- 29⅞	36	4.1

d—Deficit.
NA—Not available.

1—Years ended 7/31/1958 & 1959.
2—1st fiscal quarters ended Oct. 31.
3—Years ended March 31, 1958 & 1959.
4—6 months ended Sept. 30.
5—Years ended Feb. 28.
6—9 months ended Nov. 30.
7—Plus stock.
8—Combined revenus of Telephone subsidiaries and sales of mfg.subsid.
9—Year ended Sept. 30.

FOR PROFIT AND INCOME

Steel Stocks

The steel industry now has a clear road to a banner year. Record 1960 output and profits are expected. Some dividend boosts are likely, some splits possible. All of this might seem bullish—but steel equities move ahead of events, not with them. They rose sharply in 1958, with earnings poor during most of the year. They lagged in the 1959 first half, with output and profits high. Thereafter, despite the strike, they outgained the market into early September, the group attaining a new all-time high. Following a sizeable reaction, they rallied into early January, mostly before the wage settlement was made. After it was made they turned down on profit taking in a worse than average market performance. While a first-half boom for the industry is assured, second-half output and earnings will be lower after customers' inventories have been rebuilt. The bright first-half picture is already allowed for by the market; and we doubt that it will lift steel stocks much, if any. Readers who bought Jones & Laughlin on earlier recommendations here have good profits. Take them on any rally, and do not count on a big rally. The same opinion applies to steel shares generally.

Cross-Currents

In recent trading sessions up to this writing the principal stock groups performing worse than tht market have been, aside from steels, air transport, aluminum, automobiles, auto parts, electrical equipment and appliances, office equipment, paper and tires. Those making a better-than-average showing include aircraft, baking, dairy products, department stores, electric utilities, natural gas and tobaccos. Most of these are defensive groups which had not had a big enough rise to become technically vulnerable in significant degree.

Weak

Current technical action of the following stocks is poorer than average, suggesting possibility of further easing: Abbott Laboratories, American Enka, American Agricultural Chemical, American

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Western Air Lines	11 mos. Nov. 30	$4.36	$1.10
International Harvester	Year Oct. 31	5.10	2.69
Wilson & Co.	52 weeks Oct. 31	3.88	3.10
Masonite Corp.	Quar. Nov. 30	1.00	.63
Western Union Telegraph Co.	11 mos. Nov. 30	2.25	1.51
Peoples Gas Light & Coke	12 mos. Nov. 30	3.79	2.99
Baltimore Gas & Elec.	11 mos. Nov. 30	1.30	1.08
Wesson Oil & Snowdrift	Quar. Nov. 28	.63	.55
Tishman Realty & Constr.	Year Sept. 30	1.67	1.50
Bendix Aviation Corp.	Year Sept. 30	5.37	4.18

Cyanamid, American Viscose, American Seating, Atlantic Refining, Bath Iron Works, Case, Chrysler, Crown Cork, Eastern Stainless Steel, Federal Paper Board, Fenestra, Flintkote, General Controls, Getty Oil, Goodrich, Gulf Oil, Household Finance, Inland Steel, Lehigh Portland Cement, National Dairy Products, National Lead, Paramount Pictures, Pfizer, Phelps Dodge, Quaker Oats, Schenley, Skelly Oil, Sperry Rand, Thiokol and U. S. Gypsum.

February Pattern

Whereas January has been an up month for the market in more years than not—with the result in the present instance still to be revealed at this writing—the reverse has been so for February. Over the last 62 years the industrial average gained in February in 29 years, lost some ground in 33 years. What might it be this year? Nobody can know. It can be said that the more correction occurs in January, the better should be the chances for a fair-to-middling performance in February, even though mixed and irregular.

Above Average

Current technical behavior indicates significantly more demand for than supply of the following stocks: Armour, Associated Dry Goods, Beech Aircraft, Checker Motors, Emerson Electric, Federated Department Stores, Gimbel Bros., Hershey Chocolate, Hunt Foods, Kroger Co., Mack Trucks, Maytag, McGraw-Hill, Morrell, Otis Elevator, Penney, Philip Morris, Piper Aircraft, Shell Transport, Timken Roller Bearing, Union Carbide, Western Maryland, White Motor.

Capital Goods

This is supposed to be a year of substantial revival in capital-goods activity, by no means confined to the steel industry. The surveys of management intentions have indicated outlays for new plant and equipment well above those of 1959 and not much under the peak 1957 level. But you do not see any capital-goods boom in the stock market. In addition to steels, here is a representative sampling of capital-goods-company stocks which are performing materially worse than the market: Bucyrus-Erie, Bullard, Caterpillar Tractor, Chicago Pneumatic Tool, Cincinnati Milling Machine, Cooper Bessemer, Combustion Engineering, Foster Wheeler, and Ingersoll-Rand.

Watch It

We do no economic forecasting in this department, but are interested in psychological factors and market or business "habits" that can affect stock prices. The general view is that the outlook is bright through the first half, but that easing may come by the fourth quarter, if not by the third. The consensus early in any year is usually wrong in some degree either on the optimistic or pessimistic side, and also in the time patterns projected. The business activity top probably will come earlier or later than most people expect. If it does not come by about mid-year, it will not come before some time in 1961—*if consistent past history repeats.* It is a fact that for sixty years back to 1900 every cyclical top for the Reserve Board's adjusted index has come in the first half year with the exception of 1953, when it came in July. Keep this interesting record in mind while watching the barometric business indicators in the months ahead.

Air Lines

For some time the air line stocks have been racking up capital losses for their holders, and the end of tax selling did not bring appreciable rallies in these issues. Declines from 1959 highs range from about 27% for United Air Lines to almost 50% for Capital Airlines; and for a dozen or so principal stocks they average around 36%. Among the major air carriers, the worst-acting stock is that of Pan American, off 40%. What's the matter? As we have pointed out before, it is this: Although the stocks can have periods of speculative favor, the basic outlook for passenger transport by air, or otherwise, is unpromising. Slow-moving Federal bureaucrats regulate the rates, but there is no regulation of rising costs. Competition is already keen and will become more so, especially in the international field. While traffic will continue to grow, plane capacity probably will more than keep up with it. We do not know whether, when or how much the stocks might rally. We think they are stocks to get out of.

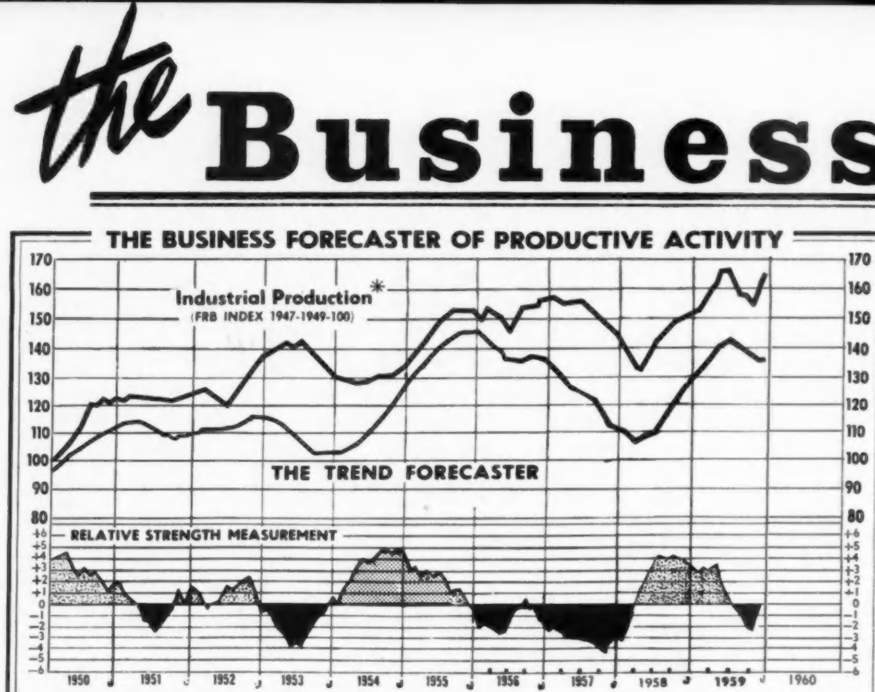
Conservative?

As common stocks go, utilities are conservative. On the negative side, the risk is moderate. But on the positive side, the appeal is restricted under today's conditions. If you buy growth utilities—such as Central & South West, Florida Power or Texas Utilities—on a yield basis in the vicinity of 2.7%, you will wait a goodly number of years for dividend growth to give you 5% return on investment cost, and you can reasonably expect moderate-rate capital appreciation. The stocks can fall considerably in a cyclical market decline, as demonstrated in the past. At the other end of the scale you can get current yields around 5% on Boston Edison, New England Electric System or Public Service of Indiana; but you get little or no growth, and there might be further price depreciation due to rising money rates. It is difficult to make a case for new buying of low-yield, medium-yield or high-yield utilities at the moment.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
South Carolina Elec. & Gas	12 mos. Nov. 30	$1.75	$1.94
Spencer Kellogg & Sons	Quar. Nov. 28	.23	.36
Disney (Walt) Productions	53 weeks Oct. 3	2.15	2.51
Great Atlantic & Pacific Tea	39 weeks Nov. 28	1.63	1.72
Schenley Industries, Inc.	Quar. Nov. 30	.81	1.07
Superior Oil Co.	Quar. Nov. 30	6.92	20.87
Union Pacific R.R.	11 mos. Nov. 30	2.38	2.93
Central Violeta Sugar	Year Sept. 30	.88	3.88
Chesapeake & Ohio Rwy.	Year Dec. 31	5.60	6.36
National Elec. Welding Mach.	Year Oct. 31	.51	.70

the Business

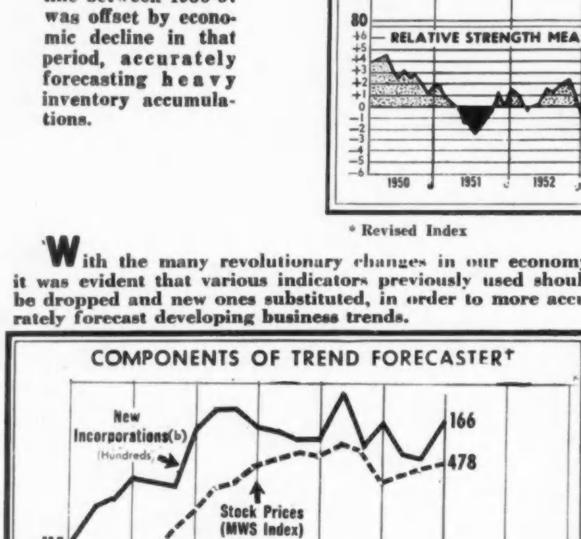


* Revised Index

Business Trend Forecaster

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

On the basis of the latest available figures, the component series entering into the Trend Forecaster have turned upward, in response to the ending of the steel strike and the resumption of normal activity in manufacturing industries.

Housing starts have recently strengthened, as steel became available for multiple dwelling-unit construction. Average hours worked turned moderately upward, in response to rising hours in durables lines, and durable goods orders have doubtless recovered in recent weeks. Performance of indicators outside the durables sector has been only equivocal; the stock market rose in December, but has been falling in January; now incorporations increased in December; commodity prices weakened, and business failures improved.

The Relative Strength Measurement, which fell under the impact of the strike, is now in a sharply improving phase, principally because of the end of the strike. Preliminary estimates point to a rise from about minus 3 in November to zero in December.

s Analyst

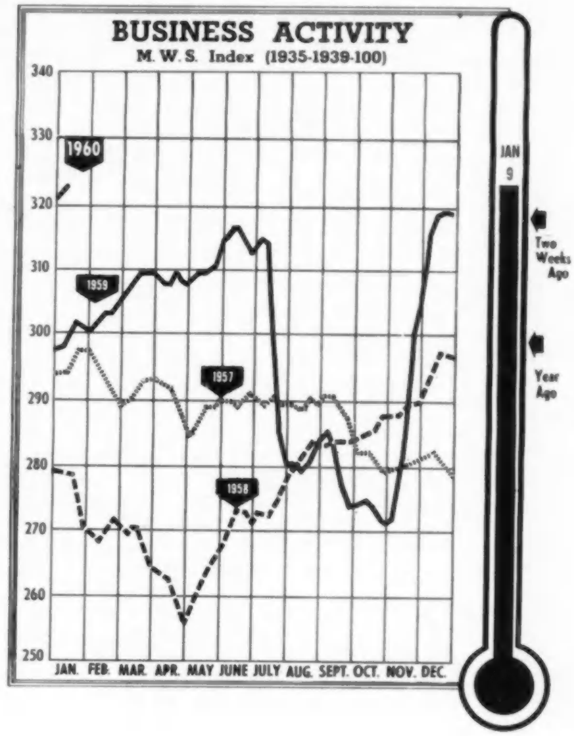
CONCLUSIONS IN BRIEF

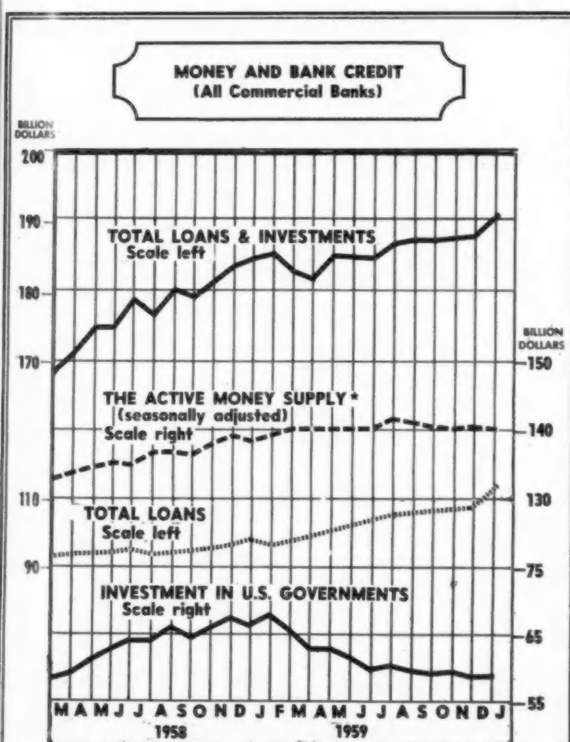
PRODUCTION—rose sharply as 1959 closed, and is still in a state of rapid and broad advance. Outlook for next six months: production rates to climb 5% above pre-strike peak, then level off.

TRADE—Retail volume, temporarily restrained in late 1959 by car shortages, now climbing to record levels, in neighborhood of $18.5 billion per month. Soft goods sales running at record rates, department store sales at or near peak.

MONEY & CREDIT—interest rates have temporarily leveled off, at postwar records. A further moderate rise is possible in early 1960, with stability thereafter. Money market conditions to stay tight for several more months at least.

COMMODITIES—industrial commodities declined slightly in December, but moderate advances probable in first quarter of 1960. Finished goods prices advancing very slowly. Still no general "inflationary" price trend in evidence.





*Demand deposits of all banks plus currency outside the banks.

IN December, as steel poured out toward consuming industries at a record rate, and as automobile producers went back into mass production, the Federal Reserve's measure of industrial production climbed back almost to the historic peak reached prior to the steel strike in mid-1959. The stage was set for a rapid general advance in business activity; the poststrike boom was on.

For the next several months—perhaps until June—the job of business executives and their advisers is to track the course of the boom, and to search the evidence, on a more or less continuous basis, for signs of the boom's duration. As a guide in the search, here are a few possible developments that may merit a watchful eye.

In March, at about the middle of the month, the Department of Commerce will publish the results of its annual survey of plant and equipment spending plans of American business. At the moment, all that is known of plans for 1960 is the result of the McGraw-Hill survey taken in October, during the steel strike. At that time, businessmen reported plans to spend about 10% more than in 1959, or about $35.5 billion. If capital outlays follow their usual cyclical course, spending expectations should rise betwen the McGraw-Hill October survey and the survey now being conducted by the Department of Commerce; thus, an increase in anticipated spending to $36 billion would simply be a normal consequence of improvement in general conditions. However, large numbers of analysts now expect that the

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* † (FRB)	1947-'9-100	Dec.	165	156	151
Durable Goods Mfr.	1947-'9-100	Dec.	174	156	155
Nondurable Goods Mfr.	1947-'9-100	Dec.	157	157	147
Mining	1947-'9-100	Dec.	129	125	129
RETAIL SALES*	$ Billions	Dec.	17.6	17.8	17.6
Durable Goods	$ Billions	Dec.	5.4	5.7	5.8
Nondurable Goods	$ Billions	Dec.	12.2	12.1	11.8
Dep't Store Sales	1947-'9-100	Dec.	151	145	143
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	29.5	30.5	27.8
Durable Goods	$ Billions	Nov.	13.9	15.1	13.6
Nondurable Goods	$ Billions	Nov.	15.6	15.4	14.2
Shipments*	$ Billions	Nov.	29.2	29.4	27.5
Durable Goods	$ Billions	Nov.	13.5	14.0	13.3
Nondurable Goods	$ Billions	Nov.	15.7	15.4	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	88.3	88.8	85.0
Manufacturers'	$ Billions	Nov.	51.5	51.5	49.3
Wholesalers'	$ Billions	Nov.	12.6	12.5	12.1
Retailers'	$ Billions	Nov.	24.2	24.7	23.6
Dept. Store Stocks	1947-'9-100	Nov.	160	158	152
CONSTRUCTION TOTAL	$ Billions	Dec.	4.1	4.4	4.1
Private	$ Billions	Dec.	3.1	3.3	2.9
Residential	$ Billions	Dec.	1.8	1.9	1.7
All Other	$ Billions	Dec.	1.3	1.4	1.2
Housing Starts*—a	Thousands	Dec.	1310	1210	1432
Contract Awards, Residential—b	$ Millions	Nov.	1092	1515	1206
All Other—b	$ Millions	Nov.	1281	1620	1388
EMPLOYMENT					
Total Civilian	Millions	Dec.	65.7	65.6	64.0
Non-Farm *	Millions	Dec.	52.5	52.2	50.8
Government *	Millions	Dec.	8.3	8.2	8.0
Trade *	Millions	Dec.	11.4	11.5	11.1
Factory *	Millions	Dec.	12.3	12.1	11.9
Hours Worked	Hours	Dec.	40.5	39.9	40.2
Hourly Earnings	Dollars	Dec.	2.26	2.23	2.19
Weekly Earnings	Dollars	Dec.	91.53	88.98	88.04
PERSONAL INCOME*	$ Billions	Nov.	385	382	368
Wages & Salaries	$ Billions	Nov.	260	259	246
Proprietors' Incomes	$ Billions	Nov.	58	57	59
Interest & Dividends	$ Billions	Nov.	37	37	33
Transfer Payments	$ Billions	Nov.	28	27	27
Farm Income	$ Billions	Nov.	14	14	18
CONSUMER PRICES	1947-'9-100	Nov.	125.6	125.5	123.9
Food	1947-'9-100	Nov.	117.9	118.4	119.4
Clothing	1947-'9-100	Nov.	109.4	109.4	107.7
Housing	1947-'9-100	Nov.	130.4	130.1	128.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	111.8	111.8	111.3
Bank Debits*—g	$ Billions	Dec.	95.8	91.5	89.5
Business Loans Outstanding—c	$ Billions	Dec.	31.4	31.0	31.4
Instalment Credit Extended*	$ Billions	Nov.	4.1	4.2	3.6
Instalment Credit Repaid*	$ Billions	Nov.	3.7	3.7	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	5.9	3.0	5.0
Budget Expenditures	$ Billions	Nov.	6.6	6.9	6.2
Defense Expenditures	$ Billions	Nov.	3.7	3.9	3.6
Surplus (Def) cum from 7/1	$ Billions	Nov.	(6.4)	(5.7)	(10.1)

PRESENT POSITION AND OUTLOOK

increase in planned spending will exceed this amount, and perhaps approach $38 billion. This would be a new record, and set new dimensions for business as a whole in 1960.

Between now and the end of March, it may be possible to appraise the probable course of federal government spending a lot more realistically than is possible now. This being an election year, it is entirely expectable that a recalcitrant Congress will authorize spending significantly more than the $80 billion proposed in the fiscal 1961 budget by the present administration.

And between now and the end of March, the possible course of the money supply and money conditions generally should become clearer. Stringently tight money in this period, when much of the financing of the seasonal Spring boom in housing starts is set, could foreshadow a sharp drop in the residential building industry's dollar volume of activity (seasonally adjusted) at the peak of its seasonal pattern; easier money, on the other hand, might well argue for a level of housing starts only moderately lower than the present 1.3 million annual rate.

Corporate reports for the first quarter are likely to provide the first realistic clue to the profits atmosphere of 1960. Right now, the probable level of profits is beclouded by many uncertainties—involving prices, productivity, and the prospective level of activity. More profits would doubtless mean more capital spending in 1960, and capital spending is being counted on to provide the major new strength for late 1960.

It may even be that by March a much clearer picture of the 1960 automobile market may have emerged. Here too, there are plenty of present doubts to be resolved; selling rates have not yet approached the 7-million annual rate to which many bullish forecasts for 1960 are hinged.

* * *

INSTALMENT CREDIT—In November, as car sales fell, under the impact of shortages, the rate of instalment credit extension declined to

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	478.6	484.5	470.2	444.0
Personal Consumption	313.3	311.2	303.9	294.4
Private Domestic Invest.	67.0	77.5	69.8	54.2
Net Exports	0.0	—1.8	–0.9	1.6
Government Purchases	98.4	97.7	97.4	93.8
Federal	53.6	53.9	53.8	53.6
State & Local	44.8	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.3	311.2	303.9	294.4
Personal Saving—d	21.9	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 9	322.6	320.8	298.5
MWS Index—per capita*	1935-'9-100	Jan. 9	234.8	233.5	222.1
Steel Production	% of Capacity	Jan. 9	95.3	95.3	74.6
Auto and Truck Production	Thousands	Jan. 9	217	201	167
Paperboard Production	Thousand Tons	Jan. 9	261	139	304
Paperboard New Orders	Thousand Tons	Jan. 9	294	221	316
Electric Power Output*	1947-'49-100	Jan. 9	261.7	264.2	248.6
Freight Carloadings	Thousand Cars	Jan. 9	592	483	550
Engineerings Constr. Awards	$ Millions	Jan. 14	416	231	302
Department Store Sales	1947-'9-100	Jan. 9	132	112	121
Demand Deposits—c	$ Billions	Jan. 6	62.0	63.2	62.9
Business Failures—s	Number	Jan. 7	242	226	321

PRESENT POSITION AND OUTLOOK

below $4.1 billion a month, from about $4.2 billion in September and October. Repayments continued at about $3.7 billion, with the result that the annual rate of increase in instalment debt outstanding fell to about $4.5 billion, from almost $6 billion in the preceding months.

With the supply of cars rapidly returning to normal, the rate of instalment debt formation is likely to take off again in early 1960, and this is likely to be, in turn, one of the critical measures by which the age of the 1960 boom can be determined. It is doubtful that a $6-billion rate of debt formation can be maintained for more than about three-quarters of the year; and when the rate falls, the auto market is likely to fall again along with it.

Rapidly rising employment is, of course, rebuilding the credit standing of a large number of families, and inducing them to enter the markets for big-ticket consumer goods. By mid-summer, however, the surge in employment may be tapering off, and good credit risks may not be appearing so frequently in dealer showrooms.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Revised index. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959-'60 High	1959-'60 Low	1959 Jan. 8	1960 Jan. 15
Composite Average	492.4	436.9	482.5	477.0
4 Agricultural Implements	492.4	356.2	424.3	407.0
3 Air Cond. ('53 Cl.—100)	137.2	110.5	130.1	128.8
9 Aircraft ('27 Cl.—100)	1375.1	1019.1	1116.11	1105.0
7 Airlines ('27 Cl.—100)	1429.4	1000.6	1044.6R	1000.6L
4 Aluminum ('53 Cl.—100)	594.5	392.0	521.3	510.9
5 Amusements	252.6	200.5	225.2	223.0
5 Automobile Accessosies	541.9	413.4	531.1	520.2
5 Automobiles	156.8	93.7	157.0	155.4
3 Baking ('26 Cl.—100)	41.3	28.5	39.1	38.7
4 Business Machines	1395.5	1173.8	1304.0	1264.5
6 Chemicals	835.5	692.9	785.6	761.5
4 Coal Mining	37.8	28.1	36.0	36.0
4 Communications	229.8	164.6	229.8	227.5
9 Construction	178.9	155.6	169.2	169.2
5 Container	1142.6	988.8	1064.7	1054.2
5 Copper Mining	344.6	280.7	334.5	337.7
2 Dairy Products	163.1	138.8	153.0	153.0
5 Department Stores	143.8	119.1	142.4	142.4
5 Drugs-Eth. ('53 C.—100)	475.4	379.5	421.9	421.9
5 Elect. Eqp. ('53 Cl.—100)	369.9	268.8	369.9	358.8
3 Finance Companies	769.7	654.6	668.9	682.3
5 Food Brands	470.0	406.3	446.1	441.6
3 Food Stores	279.6	244.4	257.9	257.9

(Nov. 14, 1936 Cl.—100)	High	Low	Jan. 8	Jan. 15
High Priced Stocks	306.7	268.4	299.9	296.3
Low Priced Stocks	665.9	585.4	653.8	651.0
5 Gold Mining	1013.5	853.0	1003.4	1013.5
4 Investment Trusts	190.6	165.2	170.6	167.2
3 Liquor ('27 Cl.—100)	1624.8	1429.2	1534.5	1444.2
7 Machinery	563.2	452.4	512.8	507.6
3 Mail Order	467.5	253.1	446.1	441.5
4 Meat Packing	277.1	204.4	264.9	270.4
4 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	208.6	206.6
9 Metals, Miscellaneous	409.6	343.8	399.1	391.7
4 Paper	1310.5	1170.1	1237.1	1211.6
16 Petroleum	885.5	701.7	736.9	729.3
16 Public Utilities	365.4	334.9	345.1	345.1
6 Railroad Equipment	104.1	86.9	99.8	99.8
18 Railroads	78.2	66.0	70.1	70.1
3 Soft Drinks	726.6	599.8	719.3	712.1
11 Steel & Iron	476.4	392.5	464.9	451.0
4 Sugar	144.7	88.7	100.9	92.6
2 Sulphur	863.3	580.6	655.9	612.6
11 TV & Electron. ('27—100)	111.3	65.6	103.1	103.1
5 Textiles	259.6	176.6	220.8	223.0
3 Tires & Rubber	281.8	216.1	255.9	248.2
5 Tobacco	194.9	172.9	188.1	188.1
3 Variety Stores	371.2	331.4	371.2	363.9
14 Unclassif'd ('49 Cl.—100)	295.1	239.8	281.9	295.1H

H—New High for 1959-1960. L—New Low for 1959-1960. R—Revised.

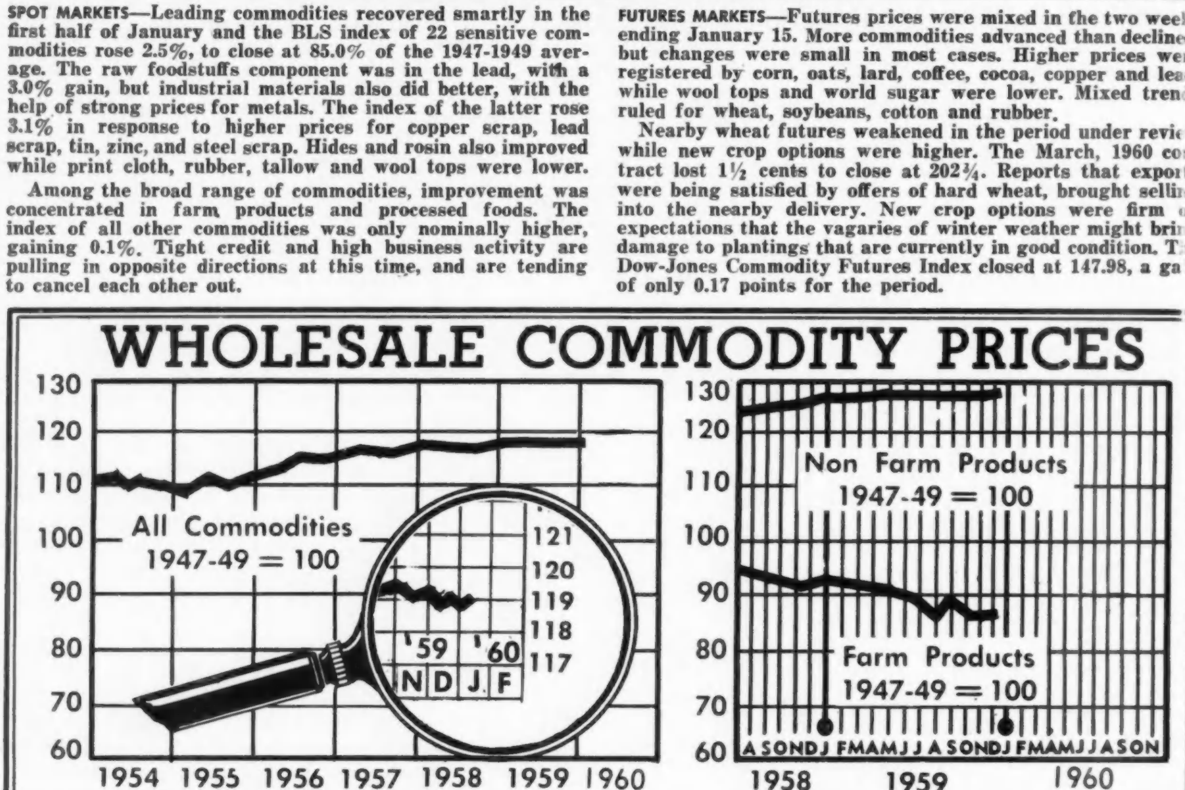
Trend of Commodities

SPOT MARKETS—Leading commodities recovered smartly in the first half of January and the BLS index of 22 sensitive commodities rose 2.5%, to close at 85.0% of the 1947-1949 average. The raw foodstuffs component was in the lead, with a 3.0% gain, but industrial materials also did better, with the help of strong prices for metals. The index of the latter rose 3.1% in response to higher prices for copper scrap, lead scrap, tin, zinc, and steel scrap. Hides and rosin also improved while print cloth, rubber, tallow and wool tops were lower.

Among the broad range of commodities, improvement was concentrated in farm products and processed foods. The index of all other commodities was only nominally higher, gaining 0.1%. Tight credit and high business activity are pulling in opposite directions at this time, and are tending to cancel each other out.

FUTURES MARKETS—Futures prices were mixed in the two weeks ending January 15. More commodities advanced than declined, but changes were small in most cases. Higher prices were registered by corn, oats, lard, coffee, cocoa, copper and lead, while wool tops and world sugar were lower. Mixed trends ruled for wheat, soybeans, cotton and rubber.

Nearby wheat futures weakened in the period under review while new crop options were higher. The March, 1960 contract lost 1½ cents to close at 202¾. Reports that exports were being satisfied by offers of hard wheat, brought selling into the nearby delivery. New crop options were firm on expectations that the vagaries of winter weather might bring damage to plantings that are currently in good condition. The Dow-Jones Commodity Futures Index closed at 147.98, a gain of only 0.17 points for the period.



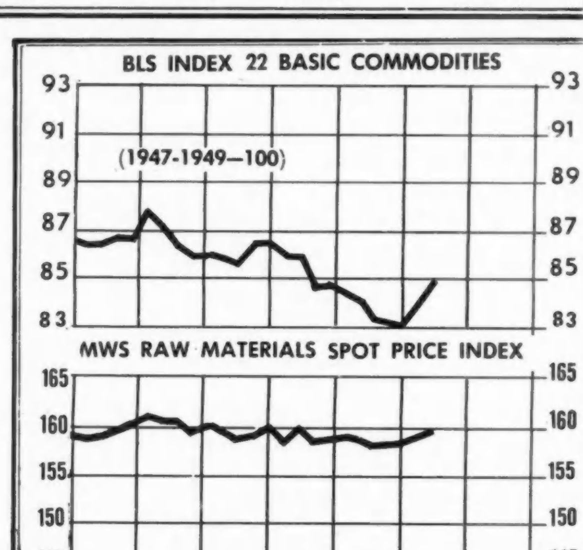
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 12	119.1	118.8	119.5	60.2
Farm Products	Jan. 12	86.3	85.0	91.5	51.0
Non-Farm Products	Jan. 12	128.6	128.5	127.5	67.0
22 Sensitive Commodities	Jan. 15	85.0	83.0	85.0	53.0
9 Foods	Jan. 15	72.4	70.0	79.2	46.5
13 Raw Ind'l. Materials	Jan. 15	94.8	93.3	89.2	58.3
5 Metals	Jan. 15	99.9	96.8	98.0	54.6
4 Textiles	Jan. 15	81.3	81.5	76.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



What The President Will Find In South America

(Continued from page 523)

been without difficulty, but the greatest obstacles have been those blocking passage of basic reforms aimed at freeing productive energies from monopolies and other restrictive practices, and establishing a sound and adequate government revenue system.

The middle-class government of President Alessandri, elected by only a narrow opposition over its far left opposition, has encouraged the inflow of private foreign capital into the country in an effort to spur domestic production, and "catch up" with inflationary-fed domestic demand. The greatest aid to the Chilean economy this past year, however, has come from improved copper prices. With every penny's rise in the copper price per pound bringing the country about $6 million a year, the rise to about 32 cents a pound in 1959 from 26 the year before, has brought considerable easing in the exchange situation and the government's budget. The cost of living rose a full 35 per cent during 1959, however, considerably more than the previous year. Without more basic improvement in this period of balance of payments ease, the country may once more find itself in serious crisis if and when the price of copper levels off.

United States Trade Policy

While the situations in these countries contain many of the basic economic problems facing other Latin American nations, they present also some of the most important trade policy questions with which the United States' policy makers must grapple. In its policy on trade with Latin America, Washington has persistently sought to prevent its close friendship for the Latin American countries from interfering with normal channels of business operation. In those growing areas where United States government intervention is already materially affecting Latin America's trade, however, consideration of the economic interests of these countries has become a question of serious controversy.

There are three main questions of trade policy which arise in United States relations with the countries to be visited.

►The first, typified by Chilean copper, involves products which compete with the output of United States domestic producers in the United States market. What relative weight is to be assigned to the interests of domestic producers and those of mines (perhaps owned by the United States) abroad when a downturn in the market brings demands for United States tariff or quota protection? This is a problem bound to grow in the years ahead as the development of cheap, foreign sources places more American mines in a marginal position.

►A second problem, typified by the cereals and other temperate zone products of Argentina, concerns commodities in which United States and foreign producers compete in third country markets. United States government measures facilitating the soft-term disposal of surpluses arising under our farm program have brought many complaints from other suppliers affected. Prior consultation with such affected countries may do much to minimize such irritations, and the program of informal consultations begun with Argentina last year may prove significant.

► A third question of trade policy, represented by Brazilian coffee, involves products which are not produced within the United States but for which the United States is the leading consumer. Here Washington has steadfastly resisted Latin American suggestions that it bear some responsibility for support of the market and take some direct action, such as imposing import quotas. The United States has extended its good offices in the negotiation of the International Coffee Agreement among the major coffee-producing countries — and this may have helped bring the French and Portuguese territories into the agreement—but it has until now refused to do more.

United States Aid Policy

If it is to aid its Latin American friends with financial assistance, the United States seems determined to keep such aid as specific as possible and outside the channels of normal commodity trade. A great deal of United States credit to Latin America, to be sure, has taken the form of Export-Import Bank financing of United States export sales. But even the Export-Import Bank's loans have at times been influenced by the need to render increased assistance at a strategic point in some country's stabilization or development program.

The central puzzle of making United States aid effective lies in the recipient country's opposition to "foreign interference." Increasing Latin American insistence that the United States and other industrialized countries have a "responsibility" for raising the economic levels of the poorer countries, does not seem to have weakened traditional Latin American insistence against United States "interference" in their internal affairs. The difficulties which this paradox poses for the effective application of United States financial assistance have called forth a variety of responses. Noteworthy among them has been United States reliance upon the International Monetary Fund. As an international organization acting under formally accepted articles of agreement the IMF is in a better position to insist upon the adoption of sound domestic policies to ensure the effectiveness of the credit it extends. The frequent tying of United States financial aid to the existence of International Monetary Fund - approved programs has no doubt contributed considerably to the effectiveness of United States aid in Latin America over the past few years. Our participation in the new Inter-American Development Bank may prove another move in the direction of effective assistance, providing the Western Hemisphere countries operating the Bank, find it possible to insist on a high level of domestic cooperation in the borrower countries.

These are some of the problems with which the President will pack his bags as he heads south on his visit of good will. While he will not, of course, return with solutions, it may be hoped that the effects of his journey will bring fruitful hemisphere collaboration in finding solutions of mutual advantage. END

Areas of Rigidity Undermining The Dollar and U.S. Economy

(Continued from page 513)

political, social and self-interest reasons. Although new projects for more sharing of the free world burden are rightfully planned, we have to accept the fact that the U.S must carry the lion's share of financial responsibilities of the non-Soviet world.

What Can Be Done?

The desirable actions enumerated above, necessary and imperative, will be of no avail unless the main sectors of rigidity—that is to say, the farm bloc, labor unions and big management—*all* accept a real sense of public responsibility in their future actions. It will be hopeless—and tragic—if any one group fails to live up to its capabilities. An overall sense of national purpose is sorely needed, rather than narrow aims of individual pressure organizations, lobbies or call them what you may. There are but two "solutions"—*one* is this urgently required cooperation. The *second* is less palatable but inevitable if the rigid positions of power blocs continue. As a result of the effort of the narrow-purposed sectors to drive for illusory goals of grandeur, even at the expense of our nation—both economically and politically from the now overlapping national and international viewpoint—government will have to act to curb these powers. This may lead to a better or worse resolution of affairs, depending on the ability of those in power. But in any case, the very structure of the economy will certainly change, in an opposite direction from that under which the freely operating private blocs now operate. These power groups will be destroying the foundations on which they exist by their exorbitant demands at the expense of the general public. I will not here make a value judgment on the comparative worth of various systems and degrees of governmental powers. However, the continued excessive abuses of private sectors will ultimately destroy their present form of existence and swing the pendulum towards wider and wider governmental controls and limitations—which will then be deserved, but unpredictable.

Conclusions:

If we lived in a "normal" world and external considerations allowed for the proverbial time-lag needed for effective institutional adjustments, the answer to our basic dilemmas *might* conceivably be found in the time tested free market mechanism. This has been evident in the substitution of other fuels for coal since 1947, which resulted in price rises equal to only about 30% of those of steel for the same period, while productivity was up more than double that of the steel industry.

There can no longer be any compartmentalized separation of our "domestic" from our "foreign" problems—the two are inextricably interwoven and have mutual effects upon each other. This has always been evident to those nations dependent upon foreign trade for a major share of their income but is relatively new to the United States and must be accepted as a reality. Thus far, preachments and talk of voluntary assumption of responsibilities by private power blocs seem to have failed rather dismally. Key sectors of the economy bear witness to this. The statistics presented earlier in this article for *steel* are self-explanatory and spin off throughout other areas to an immeasurable degree. In *agriculture,* federal government actions to prevent technological progress from depressing the relative prices of a few favored crops have proven progressively more inept and dangerous. In the area of *state and local expenditures*—not previously mentioned but still very important—purchases of goods and services by these branches of government

have risen, from 1953 to 1958 alone, by 18.5% in real terms (eliminating the price factor). These too have a "spreading" effect, diffused by raising property and income taxes of intermediate producers and direct sales and excise taxes on the final product, the latter being reflected in the consumer price index.

One could expand on particular items or disagree as to the relative weights of importance of the many areas of rigidities, but the fact remains that they are here, and form the solid core of most of our economic problems.

To return to the introductory remarks on the dollar, our gold outflow and balance of difficulties, it must be said that these are only the apparent symbols of the deeper troubles inherent in our present institutional and structural framework. Enforcing measures designed to mitigate our presently much-too-large international payments imbalance —such as sharing the foreign aid burden with Western Europe, tying certain loans to conditions of purchase in the U.S. only (a questionable move), and increasing exports (no fantastic jump is likely), will reduce the deficit to a figure which will allow for extended time to make more gradual "corrections" in our economy. **We should take advantage of this period to prove that it is not how much gold we have that determines the basic strength or value of the dollar, but how well and intelligently we manage our undeniably rich resources, manpower and technology, which are the real pillars of United States wealth.** The confidence of the world will not be given us on the strength of a temporary or artificial balanced payments position, balanced budget and/or price stability, if these are "achieved" at the expense of losing the battle for the underdeveloped nations' favor to the Soviets by drastically cutting foreign aid or returning to a system of protectionism; at the price of widespread unemployment and/or through a waste of or idling of our productive capacity. These would not be signs of strength—but of weakness—and should not be allowed to become a diversionary focal point, away from the real issue of institutional rigidity. END

An Expert Appraises The Budget Message

(Continued from page 509)

an election year and tactics which proved effective then, probably will be less potent this time.

Even those who do not agree with Gen. Eisenhower's rosy estimate of a $4.2 billion surplus at the end of Fiscal 1961 will agree that it's a consummation devoutly to be wished for.

With a $7.5 billion deficit in international payments over the past two years, dwindling gold reserves and 12 per cent of the Federal Budget going to pay interest on the National debt, the situation obviously needs stabilizing as quickly as possible. END

You Can Rent Anything Today

(Continued from page 533)

earnings from rental activities. Basically a machine tool producer, Ex-Cell-O has successfully used rental revenues to smooth out some of the volatility of its basic business.

Other Trends

One of the most significant rental trends does not show up in company reports. Many firms do not rent out their equipment directly, but have entered into working agreements with specialized leasing companies to handle the business for them. Thus, companies like **Clark Equipment** and **Borg-Warner** encourage their salesmen to direct clients to rental accredited agencies who handle their sales.

Still other companies are finding leasing a profitable form of diversification, especially if they have large capital reserves that they do not want to commit entirely to their basic business. Thus, **Tishman Realty** has set up a subsidiary—Tishman Equipment Leasing Inc.—for the purpose of constructing plants to be financed on a pay-while-you-use basis. It is designed to free capital that otherwise might be tied up in machinery, equipment and plant facilities.

Under this amazing project you can arrange to have a factory built to meet your requirements, fully equipped with the machine-

ry you need, but on a rental basis.

For the railroad industry, too, leasing on a large scale may be the answer to its pressing equipment problems. Tanks, cars and other special equipment have always been leased, but now there is a growing movement for states or municipalities to purchase commuter equipment and rent it to the roads, thereby saving the hard pressed carriers important capital.

Equipment leasing is new, and has yet to prove its staying power as a major new industry. So far, however, the record has been impressive evidence of the resourcefulness of American managements in meeting new challenges. END

Candidates For Stock Splits In The Insurance Field

(Continued from page 530)

8.7%. Investment funds have risen steadily as the insurance business has grown. And in recent years the yields on fixed income securities and dividends on stocks have tended to rise. The outlook is for a continuation of the upward trend in net investment income in the next several years, depending on the economic-political prospect.

Among the companies which have not increased their dividend rates recently and whose dividends represents a low percentage of their net investment income are: **Aetna Insurance, General Reinsurance, Glens Falls Insurance, Insurance Company of North America, Maryland Casualty** and **Standard Accident.**

Problems Still Unsolved

Because attention has ben directed toward the improvement in underwriting results and better dividend prospects of the fire and casualty insurance companies, *it should not be implied that this industry's major problems have been solved.* ► *Automobile liability insurance* continues to present thorny problems which higher rates have not entirely solved. *Competition from direct writers such as* **Allstate Insurance** *and the* **State Farm Mutual** *has resulted in the siphoning off of some of the preferred risks, leaving agency companies with a less profitable mix of business.*

► **Competitive pressures** in the fire and casualty insurance business have been increasing between agency companies as well as with the direct writers. The large multiple line companies appear to have several competitive advantages over the smaller strictly fire or strictly casualty insurance companies. These advantages are associated with greater capital strength, depth of management, and ability to provide all types of coverage, including life insurance.

► Some of the smaller specialty companies have been able to overcome their disadvantages, but the general trend is in the direction of combinations of fire, casualty and life insurance companies to obtain the competitive benefits of size and diversification as well as the pooling of managerial skills. During the next several years the merger movement among insurance companies is expected to increase in intensity. If the New York State Legislature should enact a law, which is now pending before that body, to permit life insurance companies licensed in New York to acquire fire and casualty insurance companies, considerable momentum might be added to the merger movement among insurance companies.

Will Stockholders Fare Better in 1960?

► **In general,** the prospects for the fire and casualty insurance companies improved materially in 1959 and are expected to continue in a favorable direction this year. The fire and casualty insurance companies have reduced their underwriting losses and expenses to a point where many companies now are getting their underwriting results out of the loss column and into the profit column. At the same time, net investment income has continued its steady upward climb, making possible larger dividend disbursements to shareholders.

Problems Life Insurance Companies Had to Meet

Like the fire and casualty insurance company stocks, life insurance company stocks made little market headway in 1959. The reason, however, was different. Instead of suffering from poor first quarter underwriting results, as did the fire and casualty companies, *life insurance company stocks had to meet the dampening influence of Congressional enactment of a new Federal income tax law applying exclusively to life insurance companies.* While this law has not been fully interpreted with respect to its impact on life insurance company earnings, it does not appear to be unusually severe or punitive in its effects. Its passage did, however, tend to cool the ardor of many investors in life stocks.

So long as the life insurance companies continue to show a healthy upward trend in sales and continue to benefit from improved longevity of policyholders and

Now—596 Points Profit on 21 Stocks

...Aside from 138 Points Gain Already Taken in 1959!

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THE audit on December 4 of all stocks held in the open position of The Forecast shows a net of 596⅛ points, over and above any losses. These profits are apart from the 138 points gain already "salted down" earlier this year.

This impressive record reflects our special skills and judgment — and the ability, so plainly demonstrated, to select stocks before they are split:

30.7% Gain on DENVER & RIO GRANDE WESTERN — This stock recommended at 39 was split 3-for-1 a few months ago, so for each share bought our subscribers now hold 3 new shares selling at 17.

50% Appreciation in SOUTHERN PACIFIC — This issue was picked as a buy at 45. It has recently been split 3-for-1 and the new shares are up to 22½.

125% Appreciation in REYNOLDS TOBACCO—We advised subscribers to buy at 55½ and recently the stock was split 2-for-1 so Forecast clients now have 2 new shares selling at 63 for each share purchased.

332% Enhancement in INTERNATIONAL TEL. & TEL.—Originally recommended at 18½—this stock was also split 2-for-1 in 1959 so Forecast subscribers today own 2 new shares quoted at 40, for each share acquired.

STRENGTHEN YOUR INVESTMENTS — LOOKING TO 1960

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higher interest rates on their investments, the earnings and equity values applicable to life insurance company stocks can be expected to grow. While the imposition of the higher Federal income tax rates levied on life insurance companies under the Life Insurance Company Income Tax Act of 1959 may in some measure reduce the rate of earnings expansion, the fundamental factors affecting the earnings prospects of life insurance companies continue to be favorable.

The over-all increase in sales of ordinary life insurance by all *United States life insurance companies* last year was approximately 6%. This average, however, was made up of a wide range of individual rates of gain. From the scattered information available it is known, for example that in the first half of 1959 **Franklin Life's** ordinary sales were up 36.5% and **Lincoln National's** were up 15%. **Travelers** embarked on a program of sales promotion which is reported to have given it a gain in ordinary sales of over 30% for the year.

The accompanying table shows that while the average price gain in the 15 life stocks included therein was 0.8%, the range was wide, ranging from a minus 13% for **Monumental Life** to a 61.2% gain for **Liberty National Life. Continental Assurance, Franklin** and **Jefferson Standard Life** also did better than average from the standpoint of market price gain.

The year 1959 saw several sizeable stock dividend payments by the life companies. Among these were a 2 for 1 split and 33⅓% stock dividend by **Aetna Life,** 25% stock dividends by **Commonwealth Life, Continental Assurance** and **Liberty National Life,** 10% by **Franklin,** a 1 for 11 stock dividend by **Gulf Life** and a 4% stock dividend by **Life Insurance Company of Virginia.**

Candidates for Stock Splits and Higher Dividends

While it is impossible to predict accurately what action the board of directors of any given company may take with respect to dividends, it would seem that the time may be nearing when **Connecticut General, Kansas City Life, Lincoln National Life** and **National Life and Accident** may decide to split their shares or declare stock dividends. In general, managements of stock life insurance companies, seem to have shown a preference for stock dividends as a method of recognizing the increase in shareholder's interests as the capital funds or net worth of the business expands.

Life insurance stocks in general, have marked time during the past few years. This has been taken by some investors to mean that the life insurance business has lost some of its vitality and growth characteristics. However, an examination of the facts would suggest that the industry still has growth characteristics and its future prospects have brightened. The lull in market activity and appreciation, is providing the industry with an opportunity to build its business volume, earnings and equity values, in order to establish a better basis for further gains. END

As I See It!

(Continued from page 503)

the Free Trade Area is also likely to stay in business, although the *degree* of likelihood is less than in the case of the Common Market.

What About a Fusion of the Two?

This is undoubtedly the hope of Britain, the founder of the Free Trade Area. It is also the hope of certain industrial circles in Germany which are afraid of losing their markets in Britain if each of these countries belongs to a different trade bloc. On the other hand, a merger of the two blocs would be resisted by Switzerland and Austria, both members of the Free Trade Area, which consider themselves "neutrals," and object therefore to the fact that the Common Market has *political* as well as economic integration plans.

There is also the fact that a merger of the two blocs would entail some far-reaching changes in the established Common Market integration plans. This would certainly be resisted by France as well as the, by now considerable, Common Market bureaucracy in Brussels and Luxembourg. *All in all, therefore, the chances for a merger of the two blocs do not seem to be very good, despite repeated assurances by its respective leaders that the European trade split must be repaired.*

More likely is that the two blocs will continue to co-exist but will practice a 'live and let live' attitude by lowering trade barriers against each other and extending these liberalization measures to the United States. The first evidence of this is likely to come in the course of the GATT tariff negotiations in Geneva next fall.

However, while such a course of action would certainly be preferable to a protectionist orientation of the two trade blocs, *its benefits to U. S. firms wishing to sell in the European market are likely to be quite limited.* For it can not be assumed that the trade liberalizations of either bloc to the outside world will go far enough to offset the advantages of firms operating inside them. Hence, American companies wishing to sell in the Common Market will, generally speaking, still have to establish themselves inside it, either by licensing agreements or by building subsidiaries. The same is likely to be true of the Free Trade Area, *except that in this latter case, it may be wise to suspend basic investment decisions until the viability and significance of the Trade Area has been more fully demonstrated.* END

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